



Customer Case Study

Credit Bureau

Barter and Counter-Trade

Overview

Country: Bosnia-Herzegovina

Customer Profile

LRC Credit Bureau, established in 2000, is the first fully operating private credit bureau in Bosnia and Herzegovina. Some of its key customers include the Central Bank, FBIH and RS Banking Agencies, the Ministry of Finance & the Ministry of Justice. The company also provides services to the judiciary sector, state institutions and private businesses.

Business Situation

Companies in the country have found that amount of overdue internal debt (local businesses owing other local businesses) has sky-rocketed to in excess of 2 billion US dollars. Debt collection is often a timely and risky process as many businesses are product "rich" but cash "short". Court and associated enforcement costs are high and many smaller debts are simply written-off.

Solution

LRC Credit Bureau and the XO Limited consulting team have developed a comprehensive counter-trade and matching solution. The system will provide creditors the ability to convert "at risk" debts into needed goods or services. Debtor may pay off severely overdue debts by providing their own goods (instead of cash) along with a small cash handling fee to the system.

The XO software has been deployed to keep track of stock, undertake transactional accounting, manage brokerage fees and provide participants with trade payment and statement facilities. The system also handles auto-matching of needs and offers, auto-brokering, automated newsletters, buying and selling via an online marketplace, news broadcasts, listing management, and advanced reporting.

Benefits to Creditors

- Immediate repayment of overdue debts
- Losses are recovered
- Reduced cost of collection
- Reduced market uncertainty
- Maximizes the use of capital
- Protects profits

Benefits to Debtors

- Debts repaid with new sales
- Repayment costs less than with cash
- Credit reports repaired

Language Notification

This document is available in Arabic, English, Chinese, Italian, Polish, Portuguese, Serbian, Swedish and Turkish.

"XO has provided us with both business planning, programmed specific training and software systems for the project. We would not have dreamed of going to anyone else."

Emil Kuckovic, Executive Director, LRC Credit Bureau

Converting 2 billion dollars of overdue debt into valuable assets

LRC Credit Bureau pioneered the credit reporting industry in Bosnia-Herzegovina when it commenced operations in 2000. As an adjunct to its credit tracking and reporting services the company recently expanded into debt-collection.

Where cash is impossible to collect and/or the costs of court action are prohibitive, collection may take place in the form of physical product, which LRC would then sell for cash. This cash would be handed to the creditor who would then consider the debt repaid.

The challenge to such a process was that debt-to-product conversions were risky. The problem of selling products for cash to repay debts switched from being the debtors to LRC. Product acquired was often sold for less than the full value of the debt owed, leaving the creditor with a short-fall. Seeing that bartering may be able to assist its customers with both cash-flow and collection issues LRC turned to XO Limited for assistance in developing a business model tailored to its unique situation.

XO worked with LRC to develop a structured a plan to meet their needs. The XO plan involves a unique form of trading which combined elements of cash liquidation, counter-trade and barter.

As part of the solution XO provided full business process development, training, marketing support and software implementation and assistance

COMPONENTS

- » *Needs analysis*
- » *Documentation*
- » *Business planning*
- » *Marketing planning*
- » *Training*
- » *Data analysis*
- » *Software customization*
- » *Systems implementation*
- » *Project management*
- » *Ongoing support*

Situation

LRC Credit Bureau, established in 2000, is the first fully operating private credit bureau in Bosnia and Herzegovina.

The company follows the credit history of legal and physical entities, monitors debt liabilities and paying trends and provides banks, public utilities, micro-credit organizations, insurance companies and other legal and physical entities with relevant information in the form of credit reports.

LRC Credit Bureau operates on the principles and good practices of modern credit reporting agencies in developed countries. The establishment, development, and expansion of LRC have been achieved in part by the constant streamlining of its systems and information flows. The company undertakes wide-ranging promotional activities on financial discipline, capacity building and training of the staff of commercial banks, micro-credit organizations, insurance companies, pension funds, donor organizations, public utilities companies and other BiH institutions and legal entities, as well as assisting the staff of the Central Bank, FBiH and RS Banking Agencies, Ministry of Finance, Ministry of Justice, judiciary sector and other relevant state institutions.

Since its inception the number of LRC members had increased drastically, with a composition of clients varying from legal entities to foreign and domestic financial institutions and donor organizations.

The company has its corporate headquarters in Sarajevo, and has grown to an 80-strong team of business professionals over the last 7 years, with operations across the country.

As an adjunct to its credit tracking and reporting services the company recently expanded into debt-collection.

A typical debt collecting scenario involves a business (creditor) lodging a record of an unpaid debt with the LRC collection division. LRC then sends out warning letters to the debtor with details of the amount needing to be repaid as well as information about the consequences of the unpaid debt adversely affecting the businesses credit rating.

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The second issue that faced the organization was billing its members for these collection services. LRC charges a fee for each debt collecting notice sent on behalf of its customers but did not charge a fee for any product to cash conversions that it conducted.

An efficient collection solution was required that would allow creditors debts to be recovered in full without any loss of value due to the collection process.

Solution

Seeing that bartering may be able to assist its customers with both cash-flow and collection issues LRC turned to XO Limited for assistance in developing a business model tailored to its unique situation.

XO spent some time analyzing the customers business, the local market and key economic indicators unique to Bosnia-Herzegovina. It then used this information to develop a bespoke counter-trade solution for LRC with full marketing and business support and a back-end system based on the proprietary XO Limited software.

The XO structured plan involves a unique form of trading which combined elements of cash liquidation, counter-trade and barter.

XO proposed to that LRC approach its existing customers and offer a service where it would collect all debts more than 120 days overdue in the form of product. LRC would centrally warehouse collected products and provide its customers with “trade credits” to the value of the debts owed to them.

These “trade credits” are redeemable for product from the LRC warehouse at any time. No inflation can occur in the system as the product is always physically present prior to the trade credits being issued to each LRC customer.

Using guidelines developed by XO, LRC begins a “debt collecting” cycle by looking for complimentary debtors and creditors – i.e. those debtors who have products needed by creditors. As the cycle is run, LRC collects a large range of products from debtors, stores these products, and then allows the creditors to redeem their “trade credits” on these items.

Since these goods and services are already budgeted for, the use of the trade credits received represents the full recovery of the debts with no loss and no collection costs to the creditor.

Collecting from a Debtor

When LRC collects products from a debtor it does so based on the value of the product at wholesale cost (the cost of the business to make or buy the product, not their selling price).

LRC also charges a cash handling fee – which it uses to cover staff, freight and warehouse costs.

Paying a Creditor

Once the product is collected from a debtor, LRC applies trade credits to the creditors account for the full value of the debt owed to it.

The customer can redeem these trade credits on any products in the LRC warehouse.

If the creditor waits for the cycle to complete (anywhere from 1-3 months) more and more products become available and they can begin to spend their credits on products they had already budgeted to purchase for cash.

The Safety Net

If the customer is unable to wait to redeem the credits on anything of “use” then it can swap their trade credits for the original product collected - at retail cost - plus an additional 10% extra product.

This ensures a margin of “safety” for the creditor if they must resell the “unwanted” product for cash.

As LRC has collected the products at wholesale value, it has enough products to redeem 110% of the same at retail value.

Any difference in stock collected and redeemed (profit between wholesale and retail) is kept by LRC who may then sell this surplus for cash or keep it in the creditor network to encourage variety, or to allow shorter trade cycles to occur.

Where LRC sells surplus product for cash it may choose to use this to recover any costs of breakages or to purchase additional items which are needed by its customers but not available in the network.

Both the creditor and LRC are protected at all times and there is always a variety of needed goods in the system – thereby allowing full redemption of trade credits at any time.

Starting a Trade Collection and Settlement Cycle

The key to starting a trade settlement and collection cycle involves analyzing all overdue debtors businesses.

Businesses are categorized by industry, location, length of time in business and size of the debt owed.

Large debts owed by businesses in needed / desirable industries are collected first.

Smaller debts and those products which are wanted “less” than others are collected later.

The location of the business is used to ensure that product collection can occur in a logical sequence to ensure maximum efficiency of freight and warehousing.

As part of the process of analysis XO worked with LRC to develop key system queries and data analysis tools specific to their business and the project.

The XO Software

Using the XO software, LRC is able to manage deals, create account summaries for customers, and help in the execution of logistics management of the deal fulfillment for trade credit transactions.

The software also provides LRC customers with full online banking of trade credits as well as a complete online catalogue of the products and services which highlights the best deals for them.

The system is localized to the Bosnian-Herzegovina market to include multiple local language options, country-specific reporting, taxation and a tailor made graphical interface.

Matching Creditors Wants

Matching is conducted via a streamlined process of automatic computer based brokering combined with customized reports which enable LRC staff to deal with "exceptions" to customers brokering needs.

Customer's needs are entered into the software and as these products become available the XO software automatically alerts them via email and phone.

Once alerted to a match, customers can automatically purchase the product using their trade credits via the Internet, or alert their broker who can complete the transaction for them.

LRC brokers can also generate tailor-made reports specific to a customer's needs and "pick" products and services for them. These reports can be sent directly from the XO software to the customer's facsimile, email or mobile phone or printed in directory or 'catalogue format.

The Online Warehouse

The warehousing component of the XO software allows LRC to enter and manage all received stock by location, quantity, brand, condition, value, price-breaks and other key indicators. Multiple photos of each stock item may be uploaded to produce online and print catalogues for creditors. Free text fields allow unlimited descriptions of stock items.

Bulk listings can be imported directly into the system from Microsoft Excel or CSV files.

The warehouse can be browsed and searched online and stock purchased for trade credits at the click of a button.

Packing slips and delivery dockets are printed by the system for LRC and copies of purchase orders are stored permanently in the software for recall at any time by buyers.

Accounting

The XO Software conducts all accounting functions for trade credits including online and print statements, email-notifications for purchases and transaction settlement, a dispute resolution system, trade credit escrow, auto-settlement and online trade credit transfer.

The software also has multiple billing features which enable charges to be levied to the customers of the system. These charges may be in cash or trade credits or any combination thereof.

Brokers

The system can award brokers a commission income for assisting in settling transactions between debtors and creditors – thereby providing the incentives to staff and independent contractors to ensure the use of the system.

Newsletters, Emails and Mobile Phone Alerts

To streamline communications between LRC and customers, the software has inbuilt broadcast capabilities in the form of scheduled newsletters, emails and mobile telephone alerts.

The software has a full range of auto-generated email and mobile phone alerts designed to allow customers to keep full track of transactions and trade credit balances.

Email, newsletter and mobile phone alerts can be altered at any time by the LRC through their own administrative interface.

Benefits

For the creditor

Minimize losses	Reduces the risk of debts owing over 120 days becoming uncollectible. In the event of a long-time uncollectible debt it is better to receive a trade credit which can be used in the same way as cash (to make purchases for things the business needs) than it is to run the risk that the debtor business may never repay the debt.
Reduces the cost of collection	Accepting a usable form of payment now reduces the cost of collecting an extremely overdue debt. Costs saved include: <ul style="list-style-type: none">» Additional collection expenses» Interest (if the creditor has to take out a loan to cover the short-term loss)» Financial difficulties (cash-flow suffers because forecasts cannot be met, or budgets may have required that this payment was received on time)
Reduces the uncertainty of the direction of the market	If a creditor is unsure whether a customer will be able to pay at all because their business is not receiving the customers/growth expected – this enables the debt to be repaid in full whilst assisting in the growth of the customers business.
Maximize the use of your existing capital	Through switch trading you receive full value of an outstanding, at-risk or uncollectible debt. You can spend the credits received only with a limited range of suppliers. If you can apply this credit to purchases you would have otherwise made in cash you are saving cash, allowing you to use your existing capital elsewhere.
Protect profits	Profits are protected because the credits received are utilized in a profitable manner by the business – to reduce their existing, budgeted, cash costs.

For the debtor

Debts are repaid with new sales	Businesses often cannot pay their debts because they have less income than they expected or usually receive. This could be because of: <ol style="list-style-type: none">1. Increased competition2. Businesses not willing to spend extra cash3. Poor marketing / lack of ability to pay for marketing Repaying existing debts with products allows the business to meet its obligations and attract new customers which may make future purchases from them
Repaying the debt in "product" costs less than repaying it in cash	Settling debts with surplus / unsold product costs less than with cash if cash is difficult to acquire. Cash loans attract interest and product settlement reduces the cost of warehousing stock in times of cash shortages.
Credit records are repaired	Credit records are repaired as all outstanding debts are paid.

Supporting the LRC Solution

XO Limited is the world's largest developer of software in the counter-trade, retail barter exchange and community currency market.

The company is dedicated exclusively to the industry and has a team of more than 26 full-time software developers continuously improving its products.

The company operates a 24 hour customer service centre and has a team of dedicated consultants, project managers and trainers who provide ongoing business support.

Additionally, the company operates an online knowledge base software system where customers can:

- » Access the knowledge base for online tips and tricks
- » Book live technical communication sessions
- » Log problems, faults and feature requests
- » Submit and manage issues on demand; 24 hours a day, seven days a week, 365 days a year
- » Describe software issues in their own words
- » Monitor the progress of all open issues
- » View closed issues and the steps to resolve them
- » Receive notification via email when issue has been auctioned
- » View contact details of XO staff allocated to resolve a logged problem

For More Information

For more information about XO Limited products and services, please call the XO Limited Sales Management Team.

In the United States and Canada call:

+1 (213) 221 1421

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You can find more contact details outside these areas by visiting the XO website at:

www.barter-software.com

For more information about LRC's products and services, call +387 33 20 95 30 or visit their Web site at: www.lrcbh.com



About XO's Consulting Services

As well as providing tailored barter and counter-trade software solutions the company has a core team of people with experience in areas of barter brokering, counter-trade, financial management and tactical operations in the international arena.

We also have a team of experts to assist in community relationship building exercises and marketing campaigns. Whatever your requirements we are here to provide you with the support and tools necessary to build a successful business.

For more information about XO consulting services please call the consulting team on +64 9 520 5122 or email: consulting@barter-software.com

You can visit us on the World Wide Web at: www.barter-software.com