



**Decide with Confidence**

# **D&B Webinar:** Interpreting D&B Scores to Meet Your Agency Needs

November 17, 2009

Dial in: 1-800-857-6699 / Password: D&B Webinar

# What we will cover today



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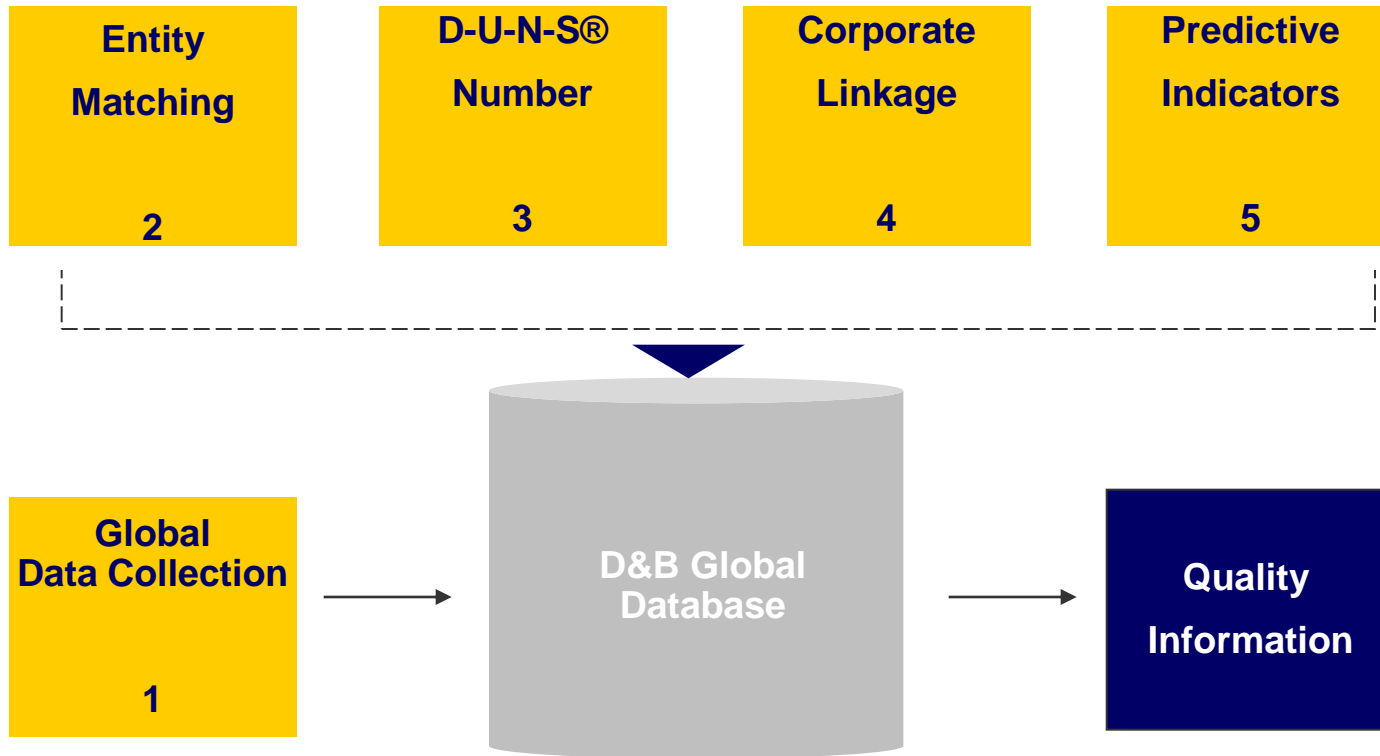
- Introductions **Michelle Derr, S&L Government Expert**
- Understanding D&B Scores **Sue Sheehey, Scoring Expert**
- Using D&B Scores for Government Decisions **Jenny Arthurs, Federal Government Expert**
- Q&A **All**

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# D&B provides quality information by leveraging **DUNSRight**<sup>®</sup>, our patented process of collecting and enhancing business data



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**← Quality Assurance →**

D&B collects from hundreds of sources around the world to provide complete, accurate, timely insight of 150 million businesses worldwide



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Direct Investigations

Payment Data

Government Registries

U.S. Public Records

Company Financial Information

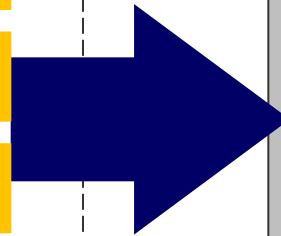
Courts & Legal Filings

Telephone Directories

CCR/Pro-Net (Diversity Data)

Web Sources

News and Media



150+ million businesses

Over 200 countries  
Over 119M executives

25.2 million active businesses in U.S.  
17M small businesses

11M linked records  
2.5 in U.S.

Information is changing at an even more rapid pace given today's current business environment



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## EVERY...

**4 hours**

a business' ownership changes

**14 seconds**

a judgment is filed against a business

**8 minutes**

a business files bankruptcy



**60 seconds**

A business' risk profile changes

**3 minutes**

A business ceases operations

**2 minutes**

a directorship (CEO, CFO, etc.) change occurs

**2 minutes**

a new business opens

# Now more than ever, comprehensive and accurate information is required for due diligence so you can confidently:



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- Determine financial stability and eligibility
  - Financial determinations for contractors
  - Disaster assistance
  - Loan/grant qualification
- Determine and monitor risk of regulated entities
  - Monitoring critical suppliers
  - Spend transparency
  - Tax prioritization and collection
- Identify potential fraud, waste and abuse
  - Procurement
  - Investigative
  - Medicaid/Medicare
- Aid with risk-based underwriting decisions
  - Workers' Compensation/Insurance
  - Emergency Preparedness



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## Understanding D&B Scores

- ✓ Understanding how the scores are developed and validated
- ✓ Best practices to leveraging scores for risk-based decisions

# D&B Financial Stress Score (FSS) and Commercial Credit (CCS) Score are statistical models that are developed to predict risk over the next 12 months



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Predictive Score	Definition
<p style="text-align: center;"><b>FSS</b> <b>Financial Stress Score</b></p>	<p>FSS predicts the likelihood of an entity ceasing business without paying all creditors in full, or reorganizing or obtaining relief from creditors under state/federal law over the next 12 months.</p>
<p style="text-align: center;"><b>SER</b> <b>Supplier Evaluation Risk</b> <b>(Derived from the FSS)</b></p>	<p>SER predicts the likelihood a supplier will fail within the next 12 months or obtain legal relief from creditors or cease operations without paying creditors in full over the next 12 months.</p>
<p style="text-align: center;"><b>CCS</b> <b>Commercial Credit Score</b></p>	<p>CSS predicts the likelihood that a business will pay its bills in a severely delinquent manner (90+ days past term) over the next 12 months.</p> <p>Severely delinquent is defined as a business with at least 25% of its payments slow and at least 10% of its payments 90 days or more past defined credit terms.</p>

# D&B's New U.S. Financial Stress Score (Version 7.1)

# The new FSS impacts the raw score, percentile, and risk class for greater insight into the health of a business



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## What Stays the Same?

- Scales:
  - Risk Class Segmentation (1-5) remains an aggregate summary and is best used for high level segmentation
  - Percentile Ranking (1-100), and
  - Raw Score (1,001-1,875)
- Definition of business failure & score availability rules
- Access and delivery methods for transactional and batch scores

## What Changes?

- Model is now developed on a weighted “Credit Active” sample
- Addition of robust Financial Information: Financial Ratios & National Debt Ratings
- Redefined Risk Classes (1-5), providing greater insight at an aggregated level
- Score commentary – Displays up to 4 factors having the greatest *negative impact* on the score
- FSS historical trend data and graphics will use the New FSS shown over the last 12 months (i.e., DNBi FSS Trend Graph)

The New FSS was developed using a sample that is weighted towards credit active businesses as opposed to equal weighting across all businesses, some of which are not actively seeking commercial credit



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- **Old Sampling Approach** - Sample representative of the full D&B universe
- **New Sampling Approach** - Sample that is weighted towards “credit active” businesses (a “credit active” business is one with 1+ D&B Inquiry in the last 12 months)
- ✓ **The impact:** average failure rate changes from 2.6% to 0.5%
- ✓ **The benefit:** stabilizes the model performance and provides projected performance results that more closely resemble an active customer portfolio
- ✓ **The rationale:** FSS is most widely used to assess risk on businesses that are actively seeking commercial credit

*With this change, it is important NOT to compare the projected failure rates of previous Versions of FSS to those of the new version 7.1. The best practice is to consider the Projected failure rates for a given new FSS score relative to the national average (0.5%) for setting score cut offs that are above or below the average*

If there is a Financial Statement and a National Debt Rating available on the business, overlay rules will be included in the final calculation of the FSS



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New  
with  
7.1

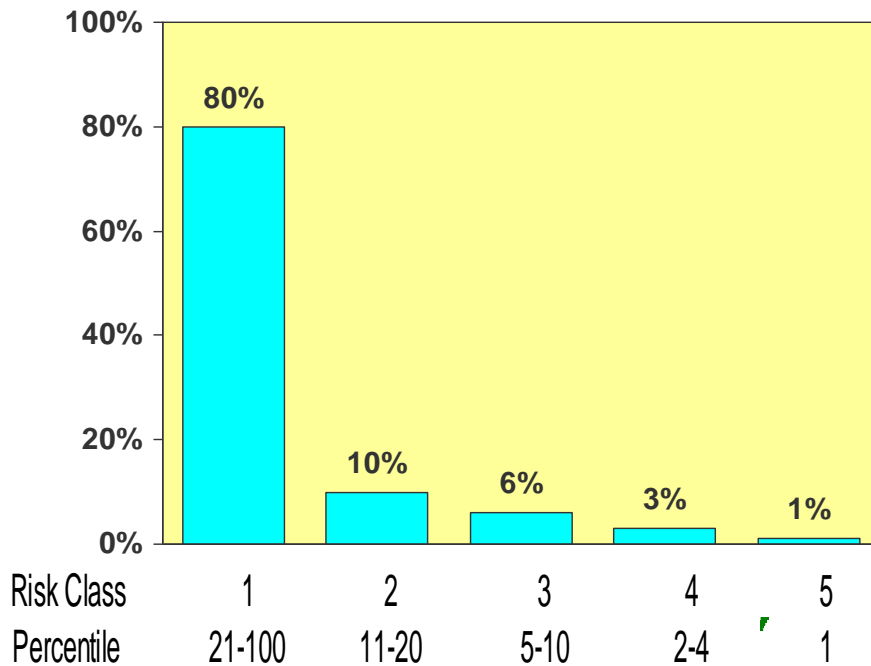
- Balance sheet or income statement on file with D&B must be no more than 24 months old to be used in the FSS model
- Set of rules based on the correlation of recent business failures and a series of financial ratios that measure liquidity, profitability and efficiency
- Businesses are classified into risk segments based on a combination of financial ratios, D&B Rating, and national debt rating. These risk segments are then combined with other model attributes in the FSS calculation.
  - **Very High Risk** – default rates much higher than average
  - **High Risk** – default rates slightly above average
  - **Average Risk** – default rates about the same as average
  - **Low Risk** – default rates below average
  - **Very Low Risk** – default rate of almost zero

The risk associated with businesses in the old Risk Class 1 varied dramatically. The new Risk Classes are more intuitive and provide greater insight into the health of a business



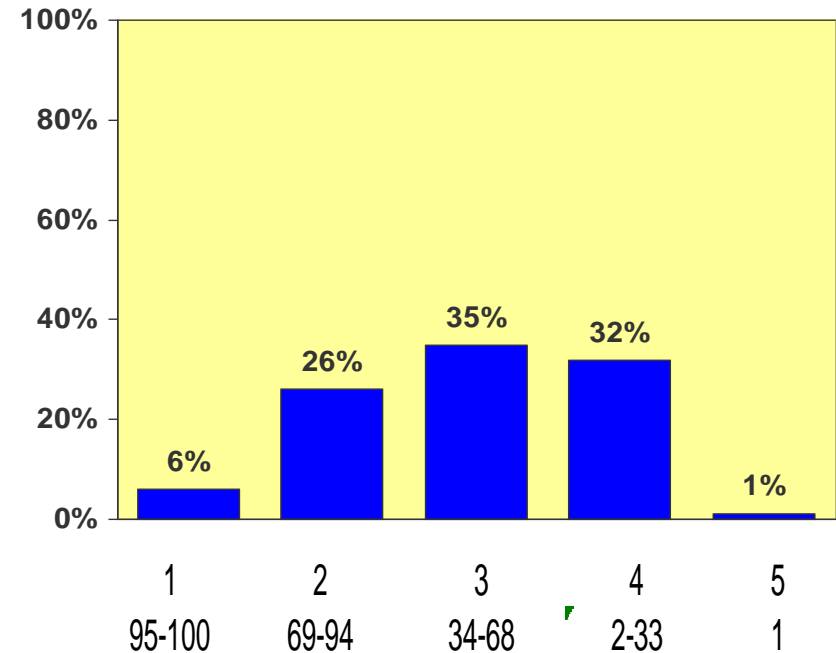
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### Old Risk Class Distribution



- ✓ Old Risk Class 1 included 80% of all businesses and as a group, had projected failure rates 2 times better than average
- ✓ “Average Risk” was in Risk Class 1

### New Risk Class Distribution



- ✓ New Class 1 now includes 6% of all businesses and as a group, has projected failure rates 17 times better than average
- ✓ “Average Risk” is now in Risk Class 3

# New FSS Model Performance

The current challenging economic environment highlights the need for dynamic predictive tools that empower companies with the latest available risk data



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**New FSS was developed on 2007-08 business performance and will be continually updated, providing models that are robust for rank-ordering in changing circumstances**

### Observation Period

- Time frame required to obtain accounts for analysis
- Collect predictive information on all accounts active at this time
- Create segments for multiple models by size of business

### Performance Period

- Time frame required to track performance
- Collect failure information
- Divide sample into “good” (not failed) and “bad” (failed) segments

January 2007

937,038 records



February 2007 – January 2008

4,483 failed during performance period

The new scorecards include various combinations of the following data variables - weighting changes based on the value & availability of the variable, and the size of business



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### Demographic Data

- Year Started and Control Year
- Industry
- Total Employees
- History
- Subsidiary Indicator

### Trade Data

- Percent of Prompt and Slow Pay
- Total Dollars and Percent of Trade 31-60
- Total Dollars and Percent of Trade 61-90
- Total Dollars and Percent of Trade 91+
- Current Paydex® and Paydex Volatility

### Public Record Data

- Total Dollars and the Number of Suits, Judgments & Liens
- Number of UCCs
- Current and Previous Bankruptcy

### Financial Data

- Current Net Worth and Trend
- Working Capital
- National Debt Ratings
- Financial Ratios for:
  - Liquidity
  - Efficiency
  - Profitability
  - Leverage

# Financial Stress Score has three different scales: The Score (1001-1875); The Percentile (1-100); and The Class (1-5)



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Financial Stress Score			
Financial Stress Class	Financial Stress Score Range	Percentile Score Range	Failure Rate
1	1570-1875	95-100	0.03%
2	1510-1569	69-94	0.09%
3	1450-1509	34-68	0.24%
4	1340-1449	2-33	0.84%
5	1001-1339	1	4.70%

"0" class denotes open bankruptcy, out of business at the location or higher risk situations

## FSS score is best used for:

- **The Class is best suited for high level segmentation. The Percentile and the Score provide more granularity and are best suited for setting risk policy**
- **As a workload prioritization tool for domain management or cargo inspections – FSS score can help predict what entities are considered high risk and should be looked at first**
- **For contractor and lending decisions to assess likelihood to deliver and ability to repay**

# SER is mapped to the Financial Stress Score percentile ranges with the associated distributions and failure rates



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Supplier Evaluation Risk Rating	Financial Stress Score Percentile		Failure Rate	Percentage of the D&B Database
	Low	High		
1	98	100	0.02%	3
2	92	97	0.05%	6
3	80	91	0.08%	12
4	52	79	0.16%	28
5	38	51	0.28%	14
6	31	37	0.40%	7
7	18	30	0.62%	13
8	4	17	0.97%	14
9	1	3	3.37%	3

SER score is best used for:

- As a workload prioritization tool for procurement departments – FSS score can determine which contractors should be automatically approved or rejected
- For contractor and lending decisions to assess likelihood to deliver and ability to repay

# When the new model is released, how will alert notifications for FSS changes be handled for D-U-N-S Numbers that are being monitored?



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- DNBI Alerts (November 14th):
  - All FSS alert notifications, both through email notification and the online transaction news and alerts tab, will be suppressed. However, the new FSS Scores, Percentiles and Risk Classes will be reflected in the Dashboard, the 'Companies' tab and the Live Reports.
- U.S. Alerts (December 5th):
  - An *Alert Services Summary Report*, detailing which registered accounts experienced an FSS change, will be sent via email. The report (an email attachment in comma separated layout) will contain basic account information with before (FSS v. 7.0) and after (FSS v. 7.1) scores to enable you to easily view and manipulate the information needed to take the necessary action in managing your accounts.
- Toolkit Monitoring (December 5th):
  - Toolkit will update its database with the new FSS Score, Percentile and Risk Class. Alert notifications for the FSS will be prioritized, based on degree of change, and delivery will be staggered over a period of 2-3 weeks.



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# How to Use Predictive Scores for Government Decisions



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## D&B Predictive Scores are used for many types of government decisions




- **Procurement** – pre & post award Risk evaluation & monitoring
- **Investigative** – segment an industry or area by high risk indicators
- **Loan/Grant Qualification** – qualification scorecard
- **Lending Oversight** – early notifications of potential problems
- **Domain Management** – assess risk by area or industry
- **Economic Dev / Business Outreach** – reach out to co's experiencing stress
- **Inspections Prioritization** – review shipping or import/export co's by risk score
- **Workload Prioritization** – spend more time on the cases that need the most attn
- **Sourcing** – look for new contracts with good risk scores
- **Tax Discovery** – monitor for risk shift prior to default
- **Fraud, Waste & Abuse** – observe leading indicators before your directly impacted

# Some agencies use the SER and FSS scores to create efficiency and accelerate pre-award and post-award decisions



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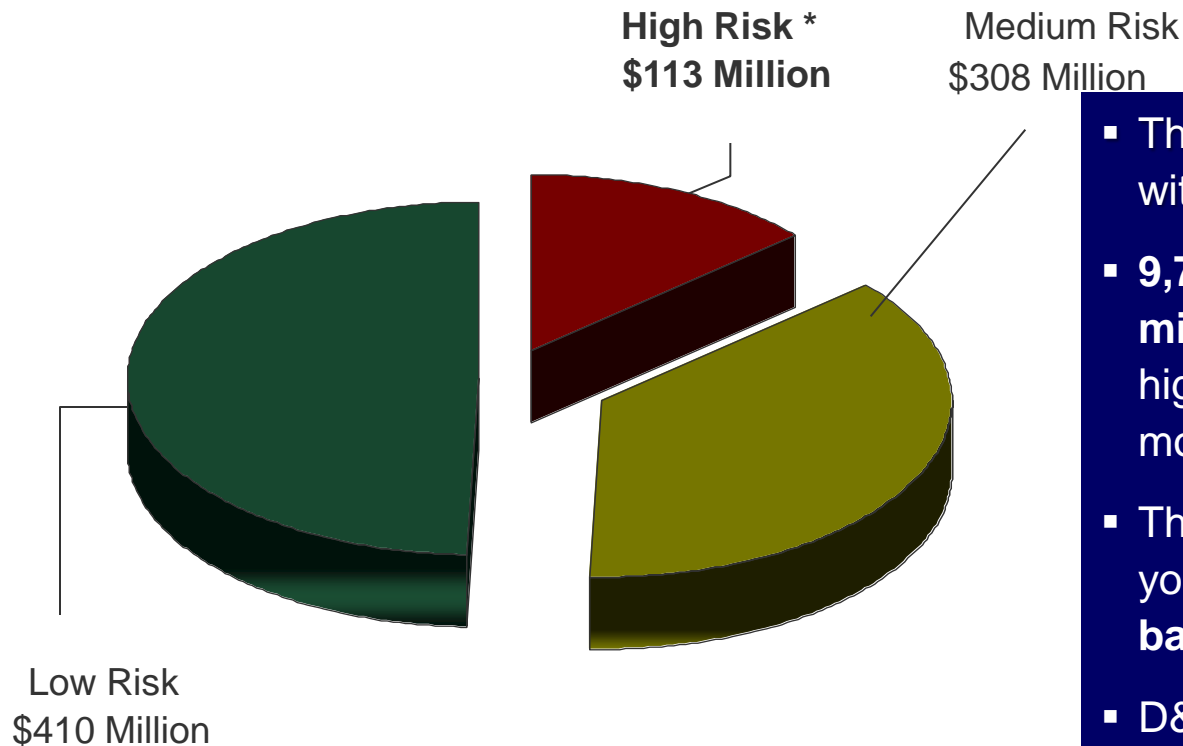
- Analysis for pre-award to establish current business health and financial condition
- In-depth financials review of large contract awards and to document size regulations
- Post award monitoring for ongoing risk

	<b>Green = Approve</b> <b>(SER Score 1-3)</b> <b>(FSS Percentile 80-100)</b>	<ul style="list-style-type: none"><li>• Very Low Scores</li><li>• Low Exposure</li></ul>
	<b>Yellow = Further Review</b> <b>(SER Score 4-6)</b> <b>(FSS Percentile 31-79)</b>	<ul style="list-style-type: none"><li>• Middle Scores</li><li>• High Exposure</li><li>• Review Criteria</li></ul>
	<b>Red = Reject</b> <b>(SER Score 7-9)</b> <b>(FSS Percentile 1-30)</b>	<ul style="list-style-type: none"><li>• High Scores</li><li>• High Exposure</li></ul>



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# Predictive Indicators exposure the risk associated within their supplier database...



- There are **14,066 suppliers** with SER's of 7, 8, or 9
- **9,781 Suppliers**, with **\$87 million in spend**, became high risk over the past 12 months
- There are **98 suppliers** in your database that are **bankrupt**
- D&B has identified **significant risk** in your supply base and Gorman should consider a program to be put in place for ongoing monitoring of the supply base

\* Suppliers scored with a 7,8 or 9 are considered Higher Risk by D&B



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# DNBi Live Report – Predictive Scores



Jenny Arthurs My Profile | Help | Sign Out

DNBi Risk Management Go

- Dashboard
- Companies
- News & Alerts
- Account Manager
- Decision Maker
- Admin

Search Enter Company Name, ID or D-U-N-S Number Enter City Select State Search More Options

You are in: Search Results > Live Report : OMEGA COMMUNICATIONS, INC.

## Live Report : OMEGA COMMUNICATIONS, INC.

- Add to Folder
- Print
- E-Mail
- PDF
- Preferences

D-U-N-S® Number: 02-123-1068 / Trade Names: No trade names for this company.

**D&B Address**

<b>Address</b>	1 Center St Ste 3a Southington, CT - 06489	<b>Location Type</b>	Headquarters
<b>Phone</b>	860 276-8504	<b>Web</b>	www.omegacomminc.com
<b>Fax</b>			

Map using Google

- Save a Snapshot
- Create Application
- Create Account
- Order Investigation

### Company Summary

#### Company Summary

- Corporate Linkage
- Predictive Scores
- Trade Payments
- Public Filings
- Special Events
- History & Operations
- Financial Statements
- Fraud Risk Scores
- Trade Groups

**Score Bar**

Financial Stress Class	Financial Stress Score Percentile	Commercial Credit Score Class	PAYDEX®	D&B Rating
5	1	5	53	1R4

Customize Score Bar

**D&B Company Overview**

This is a headquarters location

Branch(es) or Division(s) exist	Y
Chief Executive	CHARLES COCUZZA, PRES
Year Started	2000
Employees	35 (23 Here)
SIC	4813, 5734
Line of business	Internet service provider, ret computers/ software
NAICS	517110

**Financial Stress Score Class**

5 (High) 4 3 2 1 (Low)

High risk of severe financial stress over the next 12 months.

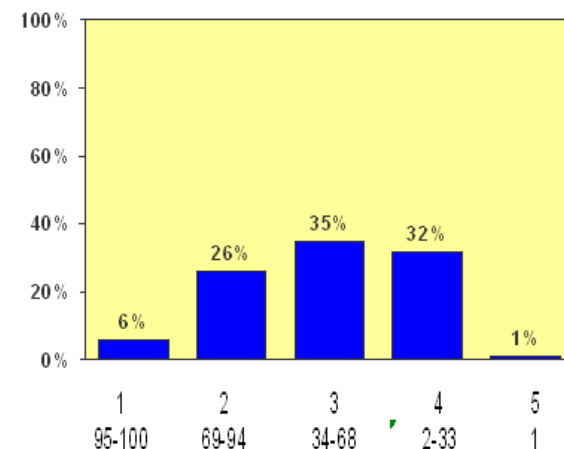
View Details

**D&B PAYDEX®**

How helpful was the D&B information for this company?

☆☆☆☆☆

### New Risk Class Distribution



Some agencies use both the CCS and FSS scores to monitor the degree of risk associated with business partners, critical suppliers, etc



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		CCS Score 501-670 CCS Percentile 71-100 CCS Class 1, 2	CCS Score 101-500 CCS Percentile 1-70 CCS Class 3, 4, 5
		Low Risk of Delinquency	High Risk of Delinquency
FSS Score 1255-1875 FSS Percentile 34-100 FSS Class 3, 2, 1	Low Risk of Failure	<p><b>“STARS”</b></p> <p>Healthy companies that not only are prompt payers, but also less likely to fail.</p>	<p><b>“SHORT TERM RISK”</b></p> <p>Companies that are less likely to experience failure, but are not prompt in paying obligations.</p>
	FSS Score 1001-1254 FSS Percentile 1-33 FSS Class 5, 4	High Risk of Failure	<p><b>“LONG TERM RISK”</b></p> <p>Rare situation. Companies that are regular in payment but with a high risk of failure.</p>

D&B Report Comparison	Business Information Report	Comprehensive Report	Federal Information Report	Supplier Qualifier Report	US Patriot Act Report	US Patriot Act Plus Report	Company Lookup Report	GRS Report	Family Tree Listing
Duns#, Legal Co Name, Address & Phone#	❖	❖	❖	❖	<i>no phone#</i>	❖	❖	❖	❖
Corporate Linkage Details		❖	❖						
Corporate Linkage Interactive Display		❖							
Government Contract Details			❖						
Government Grant Details			❖						
Government Debarrement Details			❖						
Government Loan Details			❖						
Government Debt Details			❖						
Socio-Economic Classifications	❖	❖	❖	❖					
Financial Stresss Scores		❖							
Commerical Credit Scores		❖							
Industry Norms Comparisons	❖	❖	❖	❖					
Payment Trend Profile		❖		❖					
Compliance Risk Index & Class					❖	❖			
Identity Verification "Proof of Right"					❖	❖			
Government Control List Screening (OFAC)					❖	❖			
FEIN/TIN Listings			❖						
Supplier Evaluation Rating				❖					
UNSPSC Codes				❖					

## In summary, due diligence is more critical than ever...here's a few simple steps to keep in mind



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- Make sure you really know your business partners - this is best done by verifying the legitimacy of a business
- Use predictive scores to streamline inspections, applications or financial determinations
- Review financial information closely to understand the near and long term financial stability of your business partner
- Monitor business change among business partners - it may impact performance or eligibility



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## Questions?

### **Federal:**

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### **State & Local:**

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