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Trading Cards Summary / Dashboard - Product Scope

Introduction

Currently business selling their services must invest large amounts of time, money and effort using search engines, tender portals and websites or by simple word of mouth to find business opportunities on which to pitch for. Large companies have the capacity, the skills, time and money to dedicate to this task and are not the main target of this offering. Smaller businesses have many challenges, running their business meeting their existing customers' and staff needs and find it difficult to divert their attention to generating new business without impacting on the day to day.

Customers find it difficult to find the right supplier or partner, searching the internet throws up dozens if not hundreds of business who offer services that might meet their needs. Most customers try to follow a basic process to identify a suitable supplier which involves answering numerous questions about the business, their size, their length of trading, financial health and expertise. Then spend a small amount of time on the work itself or whether the supplier would be a good fit.

All this leads to frustrations on both sides of the relationship, costly and time-consuming processes, poorly conceived deals leading to poorly matched buyer and supplier and poor customer/supplier experience.

Solution

The purpose of Lynq is to make it easier to do B2B, aimed specifically at SME's and Sole Traders the platform creates an ecosystem based on big data sets and machine learning algorithms to make connecting buyers to sellers and vice-versa more efficient and lower cost.

In order to achieve this a summary profile or 'Trading Card' will be developed to provide a set of key performance indicators for the business. The 'Trading Card' will give a high level summary of key business indicators and will allow the business owner to drill down in to further detail for each group of indicators.

Trading Cards

The purpose of the 'Trading Cards' system is to allow companies to see a summary set of key performance indicators / information about its business. The information will be categorised into a set of related groups including:

- **Credit Score**
- **Finance**
- **Compliance**
- **Team**
- **Company**

The top-level summary information will provide a score / rating for the performance indicator and is there to provide a 'snapshot' in time of the business's overall performance.

For each performance indicator group there will be a secondary and more detailed level of information which will breakdown into a sub-set of indicators which are being used to provide the measures. These measures will be broken into two main categories Primary and Secondary Information, again to give some form of indicator of the relative importance of the information to the overall score / rating.

Associated with this information will be a trend analysis, this will be based on the historical information provided by the organisation and will be a simple descriptor i.e. Improving ¦ Worsening ¦ Stable plus a visual indicator i.e. up ¦ down ¦ level arrow.

For further visualisation feedback, each key metric / indicator could be colour coded Red ¦ Amber ¦ Green or using Stars depending on a set of thresholds which will be used to indicate performance

Value Calculators

These will be used to give feedback to the business owner on the high-level status of their business / organisation. Whilst the ratings will be specific to the models designed by MBL they will use or incorporate industry standard methods and guidelines where available.

There are two key values which need to be calculated:

- **Data Quality**
- **Data Meaning**

Data Quality

This is used to measure the quality of the data about the organisation, at its simplest it will measure how much data there is for each category i.e. how many fields have been completed and how much depth i.e. historical data there is about the organisation. The indicator is useful as it will provide feedback to the leaders of the business about what data

they should be making available for scrutiny. The lack of information can significantly impact a business in terms of it's Credit Rating / Score as well external systems and processes being able to make 'fair judgements' on a business's performance. It also demonstrates a business's integrity the more information that is available indicating that the owners/leaders of the business are applying good practise and governance in their business affairs which will reflect positively.

A standard formula is applied across all Groups and Indicators, and which basically allocates a value for each element that is complete.

Each completed or filled-in field will accrue a value of 10 points, any blank or missing data in a field will be allocated 0 points. If all fields a blank for the particular grouping of indicators, then a score of -10 points will be given.

For every year the company has filed the information the value of the data will accrue a weighting to the overall score as follows:

Year	Multiplier
Year 1	Total Value x 1
Year 2	Total Value x 1.2
Year 3	Total Value x 1.3
Year 4	Total Value x 1.4
Year 5	Total Value x 1.5

So, for example if in Finance Group there are 7 data elements / indicators, if all are filled in this will mean 7 x 10 points = 70 points in total.

If the business has been trading for 3 years and has completed the information for all 3 years, then business will accrue additional weighting of 1.3 which means overall score is 91.

The maximum score a business can achieve is 70 x 1.5 = 105

If a business has not filled in any information then they will be given a score of -10, and if they have continued to do this for the previous years of trading then they will incur the score multiplied by the number of years trading up to a maximum of 5 years i.e. if been trading 4 years then they will receive -10 x 4 = -40

In summary the total filled-in elements will give an indication of the quality of the data and allowing for a multiplying factor for number of years of information will give an overall rating/score.

Note
It may be possible from the profile builder to ask the business owner for key information which is missing, which will allow the calculation of the key indicators, however the rating

should still reflect the fact that a full set of information hasn't been provided to the correct bodies.

Data Meaning

The data meaning measure will be used to provide a value or meaning to the data itself. This will be specific to the type of data and include other factors such as age, size and sector of business. This measure will evolve over time based on information being collated.

Each group of indicators will have their own specific set of measures and therefore meaning; some indictors will reuse or 'pull through' measures direct from the source such as Credit Score / Rating. Others will use the measure to infer a rating for example Gearing which is a measure of how much of company's operations are funded using debt versus the funding received from shareholders as equity. A Gearing ratio of less than 25% is Low Risk, a Gearing ratio of between 26 – 50% is a Medium Risk and a Gearing Ratio of > 50% is deemed High Risk.

Financial metrics are the most prevalent when measuring the performance of a company as they have 'hard' evidence i.e. money, however there are other indicators which are used to measure the performance of a company, for example within Corporate Governance if a board has more than 4 members and has been trading for more than 3 years then it should have a more diverse set of members which is a diversity indicator.

See Appendix I – Trading Cards Indicators Formulae

Groups and Indicators

Credit Score

This is the primary indicator of the main set of information given to the business and will be given prominence above the other 4 indicators.

It will be pulled directly from the Credit Score information from CreditSafe.

Detailed Information

This will include the following information pulled directly from the CreditSafe data record.

Primary Information

Company Value:	providerValue.value
Rating Description:	providerDescription
Credit Limit	creditLimit.value

Secondary Information

Liquidity Ratio:	financialStatements.ratios.liquidityRatioOrAcidTest
Debt Ratio:	financialStatements.ratios.currentDebtRatio
Gearing:	financialStatements.ratios.Gearing
Total Debt Ratio:	financialStatements.ratios.totalDebtRatio

Trend Information

Credit Score Trend Status	Improving¦Worsening¦Stable
Debt Ratio Trend Status	Improving¦Worsening¦Stable
Gearing Ratio Trend Status	Improving¦Worsening¦Stable
Total Debt Ratio Trend Status	Improving¦Worsening¦Stable

Finance

This is the first 'sub-primary' indicator of the main set of information given to the business and will be given prominence with 3 other indicators.

Finance is used to build a picture of the company's financial health it will include the latest figures from their accounts, as well as historical information to provide a trend analysis. Key information includes Revenue (Turnover), Operating Profit and EBITDA.

The value will be calculated from an assessment of the data pulled from Financial statements information from CreditSafe.

Detailed Information

This will include the following information pulled directly from the CreditSafe financial data record.

Primary Information

Revenue:	financialStatements.profitAndLoss.revenue
Operating Profit:	financialStatements.profitAndLoss.operatingProfit
EBITDA:	financialStatements.profitAndLoss.operatingProfit +financialStatements.profitAndLoss.depreciation +financialStatements.profitAndLoss.amortisation

Secondary Information

PreTax Profit Margin	financialStatements.ratios.preTaxProfitMargin
Return on Capital	financialStatements.ratios.returnOnCapitalEmployed
Return on Total Assets	financialStatements.ratios.returnOnTotalAssetsEmployed
Return on Net Assets	financialStatements.ratios.returnOnNetAssetsEmployed

Trend Information

EBITDA Trend Status	Improving¦Worsening¦Stable
Return on Capital Trend Status	Improving¦Worsening¦Stable
Return on Total Assets Trend Status	Improving¦Worsening¦Stable
Return on Net Assets Trend Status	Improving¦Worsening¦Stable

Value Calculator

The indicators used for the Values will be based on the Secondary Information

- **Pre-tax Profit Margin (PTPM)** which measures the operating efficiency of the company. It is a ratio which tells business owners and leaders the percentage of sales that have turned into profits before tax.
- **Return on Capital (ROC)** is a financial ratio that can be used to assess a company's profitability and capital efficiency, i.e. how well is the company generating profits from its capital. (General measure ROC value should be at least twice current interest rates)
- **Return on Total Assets (ROTA)** is a ratio that measures a company's earnings before interest and taxes (EBIT) relative to its total assets. It is defined as the ratio between net income a company receives in a financial year as compared to the average of that company's total assets. It is an indicator of how effectively a company is using its assets to generate earnings. (General measure ROTA of 5% or better is considered good)
- **Return on Net Assets (RONA)** is a measure of financial performance calculated as net profit divided by the sum of the fixed assets and net working capital. RONA shows how well a company is deploying its assets in economically valuable ways. A high ratio indicates management is squeezing more earnings out of each £1 invested in assets. (General measure ROTA above 50% is Good, below 50% is Poor)

Each indicator has been given a calculated value which is a percentage ratio and which can be 'rated', the ratios and therefore the ratings given can also be compared across the industry sector to give a performance measure against other similar businesses.

These indicators will be compared against a set of industry standards and given a rating or score depending on whether are similar, better or worse than the industry standard. This information will be collated and provided separately on a sector by sector basis as and when new clients sign up.

Note
Not all companies will provide this level of financial information as the may class themselves either as Sole Traders or Micro businesses. The score will reflect this and will encourage the business owner to present this information going forward as it will help with their overall Credit Score and Rating.

Compliance

This is the second 'sub-primary' indicator of the main set of information given to the business and will be given prominence with 3 other indicators.

Compliance information will be used to indicate how 'well run' the company and give an up to date status of the business. The information used will include the Company Status (Active, Inactive), the Last Year the Accounts were submitted, whether Accounts were consolidated i.e. the company is a group of companies, and whether the company has been subjected to any County Court Judgements.

Further information around Payments is also collected including the Late Days, as well as Days Beyond Term i.e. average number of days after the payment should have been made, this information will be compared with industry standards.

The value will be calculated from an assessment of the data pulled from both the Reports, Financial statements and payments data information from CreditSafe.

Detailed Information

This will include the following information pulled directly from the CreditSafe reports and financial and payments data record.

Primary Information

Company Status:	Report.companyStatus.status report.companyStatus.description	+
Last Year Submitted Accounts	financialStatements.yearEndDate	
Consolidated Accounts	financialStatements.consolidatedAccounts	
CCJ Registered	negativeInfromation.ccjSummary.exactRegistered	

Secondary Information

Payments Paid Late	paymentData.paymentsPaidLate
Payments Sent Legal	paymentsData.paymentsSentLegal
Days Beyond Term (DBT)	paymentData.dbt
Industry DBT	paymentData.industryDBT
Payment Trend	paymentData.paymentTrend

Trend Information

DBT Trend Status	Improving¦Worsening¦Stable
Payment Trend Status	Improving¦Worsening¦Stable

Value Calculator

The indicators used for the Values will be based on a combination of both Primary and Secondary Information

Least Year Submitted Accounts which needs to be done within 21 months after the date the company was registered with Companies House, and thereafter, within 9 months of a company's financial year ends. If these deadlines are not met, it may be an indication that the company has a problem.

Days Beyond Term (DBT) is an important business credit term which describes how long it takes a business to pay its bills past the due date. This can be compared with the Industry DBT and will give an indicator of how good or bad a payer the organisation is in respect it's industry.

Payment Trend indicates whether the business's payments i.e. DBT is improving, worsening or stable, depending on the status it could indicate underlying issues in the business such as cash flow or payment/debt collection

Note

These are useful indicators as if any are 'missing' or negative or outside the industry standards, they can indicate whether the company is under stress, and liable to default on payments or even go bust. Also, if the company is a medium sized but is a group of companies then under the Companies Act of 2006, they need to produce a set of consolidated accounts, not just individual company accounts.

Governance

This is the third 'sub-primary' indicator of the main set of information given to the business and will be given prominence with 3 other indicators.

The Governance information will give an assessment of the 'strength of the team' involved in running the business. The information will include a list of the directors (and positions if stated), the number of active directors as well as whether any of the directors have been previously disqualified.

As well as this information the number of employees will be collected (if stated), this will be useful in providing a trend analysis of the growth or otherwise of the company.

The value will be calculated from an assessment of the data pulled from both the director's information from CreditSafe.

Detailed Information

This will include the following information pulled directly from the CreditSafe directors data record.

Primary Information

Board of Directors	Directors.currentDirectors.name
Disqualified Directors	Directors.currentDirectors.disqualified
Number of Employees	otherInformation.employeesInformation.numberofEmployees

Value Calculator
The key value is Disqualified Directors as this may have an indicate the quality of the leadership team and therefore it's overall governance and controls.

A secondary indictor is Diversity which should be used for larger and more established Board of Directors.

If a board has 4 or members and the company has been trading for more than 3 years, then there should be a Diversity measure applied i.e. 25% of board need to be of the opposite gender (whichever is the dominant gender)

Company

This is the fourth 'sub-primary' indicator of the main set of information given to the business and will be given prominence with 3 other indicators.

The final set of Company information will be to perform due diligence on the company in general including checking whether company is registered on companies house (sole traders and charities are exempted), when they were registered and therefore how long they have been trading. The legal form/entity of the company as well as the company's principal activities (i.e. SIC code) and their credit rating.

The value will be calculated from an assessment of the data pulled from both the Reports, Company Identification and credit score data information from CreditSafe.

Detailed Information

This will include the following information pulled directly from the CreditSafe reports and company identification and credit score data record.

Primary Information

Business Name:	**Report.companySummary.businessName**
Company Registration Number:	**Report.companySummary.companyRegistrationNumber**
Company Registration Date:	**companyIdentification.basicInformation.companyRegistrationDate**
Company Legal Form:	**companyIdentification.basicInformation.legalForm.description**
Company Status:	**companyIdentification.basicInformation.companyStatus.status**

Secondary Information

Principal Activity:	**companyIdentification.principalActivity.description**
Activity Classification:	**companyIdentification.activityClassifications.activities.code**
Activity Classification:	**companyIdentification.activityClassifications.activities.description**

Years Trading:	Currentyeartodate - companyIdentification.basicInformation.companyRegistrationDate
Credit Rating:	**creditScore.currentCreditRating.commonValue**
Credit Rating Description:	**creditScore.currentCreditRating.commonDescription**

Trend Information

Credit Rating Trend Status	**Improving¦Worsening¦Stable**

Value Calculator

The Credit Rating is the dominant indicator of the business as this a worldwide standard applied by Credit Reference Agencies.

Company Registration Number is an important indicator as not all companies at the Micro/SME level or Sole Traders will register their business at Companies House. This should be captured and flagged as an omission, with a negative rating of -10 points. If Companies House registration is present then the value should be 10 points as registration should be encouraged.

Years Trading will also be used as a secondary indicator as this will indicate longevity

Note

Credit rating is different measure to Credit Score, Credit Score is generally based on the FICO method of calculating a business's credit worthiness i.e. risk of paying a debt back, the information comes from Credit Bureau's. The Credit rating is generally a 'worldwide' standard applied, it uses letters (AAA to D) and applied by Credit Reference Agencies such as Standard & Poor and Moody's.

'Trading Cards' Purpose

The purpose of the 'Trading Card' is as follows:
- To provide a business with a snapshot of key performance indicators
- To educate business owners about critical aspects of their business profile and what they are used for
- To allow a business to focus on areas of weakness
- To allow a business to identify areas of improvement and what steps to take
- To provide regular feedback to business owners when improvements are made and when actions need to be taken to address issues or weaknesses
- To provide a 'jumping off' point for the business owner to other services and facilities based on the particular set of indicators that is under scrutiny

'Trading Cards' Usage

The 'Trading Card' will be used in the following scenarios:
- By the business owner to provide feedback on key business indicators to enable proactive management of their business profile
- By the business owner to compare their business other similar businesses in their sector via a 'Top Trumps' type approach
- By the business owner to find services to assist in addressing issues in the business
- By other business owners to compare themselves against their competitors (sector, region, type)
- By organisations who wish to find suppliers who match their baseline criteria

See Appendix II / III for further information about possible screen design

Future Developments

Additional developments post the release of the core Trading Card system include the following:
- Ability to connect business owners to experts on specific business issues based on the indicators i.e. connect business owner to expert on debt and financing based on the businesses financial and payments data
- User defined key business indicators, allowing the business owner to specify additional 'non-core' criteria on which to measure their business
- Dynamic Supplier recommendations based on the buyer's ability to alter the comparison criteria the supplier matching would alter dynamically based on the changes made

Summary

In summary the Trading Cards should contain the following core elements.
- **It must be able to provide both summary and detailed information**
- **It must be able to provide complex information in simple format**
- **It must be able to change as the business changes and addresses issues**
- **It must be able to be used to 'measure' a business's performance**
- **It must be able to be viewed by other parties within the platform**
- **It must be easily extensible when new data sources are identified, or new data elements added by the source provider**

Appendix I – Trading Card Indicators Formulae

EBITDA = Operating Profit + Depreciation + Amortisation

Used to indicate corporate profitability
Used to compare companies against each other and industry averages
Good measure of core profit trends
Can be used to estimate the cash flow available to pay the debt of long-term assets

Gearing Ratio

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Total Debt = Long Term Debt + Short Term Debt + Bank Overdrafts

$$\text{Equity Ratio} = \frac{\text{Equity}}{\text{Assets}}$$

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

A gearing ratio higher than 50% is highly geared. Company is at greater financial risk because at times of lower profits and higher interest rates, company would be more susceptible to loan default / bankruptcy

A gearing ratio lower than 25% considered to be low risk

A gearing ratio between 25% and 50% is considered optimal / normal for well-established companies

Liquidity Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio measures a company's ability to pay off its current liabilities (payable within one year) with its current assets such as cash, accounts receivable and inventories. The higher the ratio, the better the company's liquidity position.

Net Debt to EBITDA Ratio

Net Debt to EBITDA = Total Debt -Cash & Equivalents

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EBITDA

The net debt-to-EBITDA ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant. It allows external parties to work out how well a company can cover its debts

If a company has more cash than debt, the ratio can be negative.

Pre-tax Profit Margin
It measures the operating efficiency of a company, tells us the percentage of sales that has turned into profits i.e. many pence of profit generated from each pound of sale before deducting taxes. The pre-tax profit margin is widely used to compare profitability of businesses within the same industry.

Return on Capital Employed (ROCE)

Is a financial ratio used to assess a company's profitability in terms of all its capital. It can help understand how well a company is generating profits from its capital.

ROCE =   EBIT

$$\overline{\qquad\qquad\qquad}$$

Capital Employed

Where:
EBIT = Earnings before interest and tax
Capital Employed = Total Assets - Current Liabilities

Return on Total Assets (ROTA)
ROTA is a ratio that measures a company's earnings before interest and taxes (EBIT) relative to its total net assets. The ratio is an indicator of how effectively a company is using its assets to generate earnings. EBIT used instead of net profit to keep metric focused on operating earnings.

ROTA =   EBIT

$$\overline{\qquad\qquad\qquad\qquad}$$

Average Total Assets

Return on Net Assets (RONA)
RONA is a measure of financial performance calculated as net profit divided by the sum of fixed assets and net working capital. The RONA ratio shows how well a company and its management are deploying the assets in economically valuable ways, a high ratio result indicates that management is squeezing more earnings out of each

£pound invested in assets. RONA is also used to assess how well a company is performing compared to others in its industry.
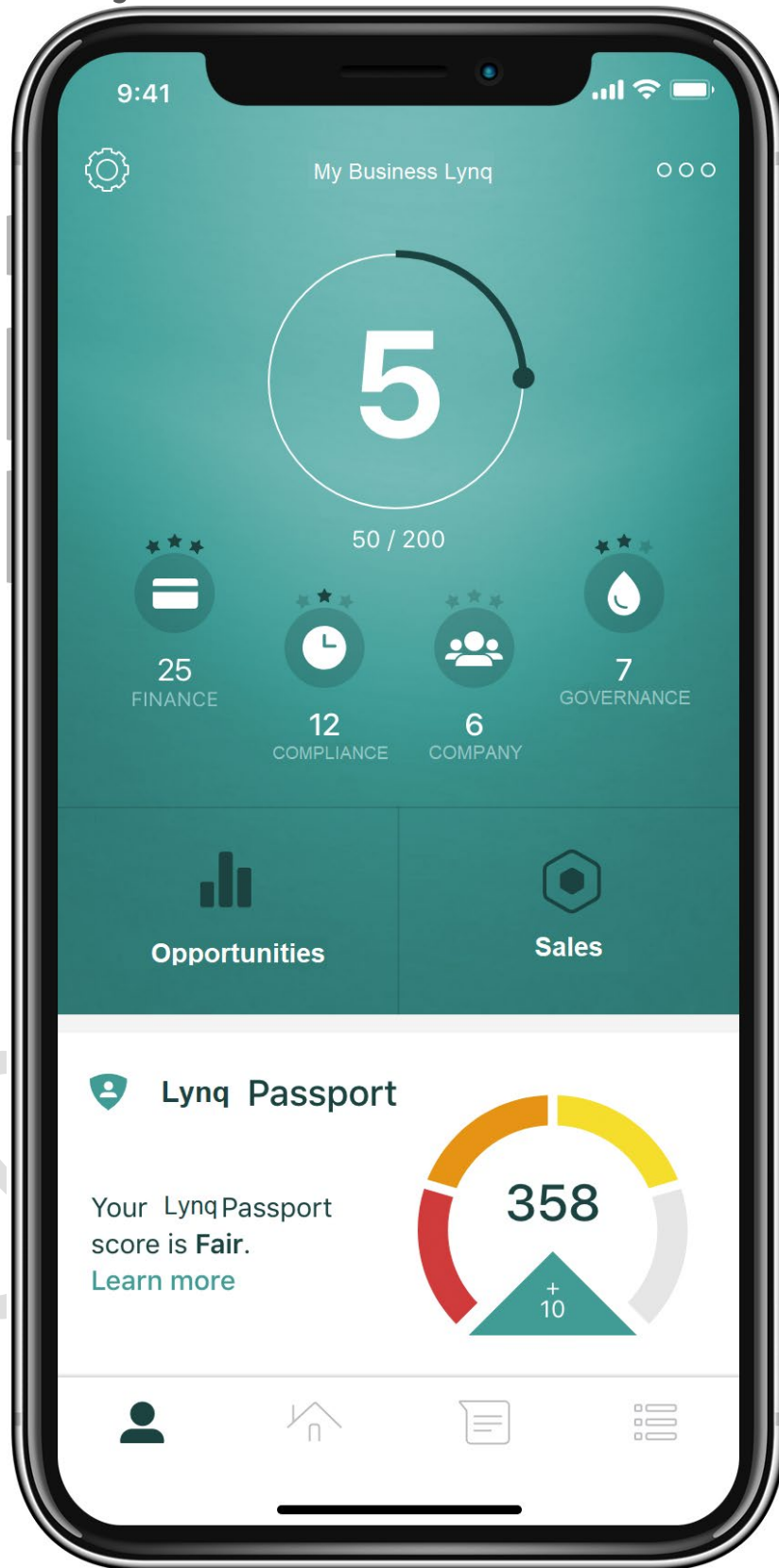
RONA = $$\frac{\text{Net Profit}}{\text{(Fixed Assets + Net Working Capital)}}$$

Net Working Capital = Current Assets - Current Liabilities

Days Beyond Term (DBT)

DBT is a proprietary score which calculates the average of the number of days (past terms) a business takes to pay its suppliers.

Appendix III – Trading Finance 'Detailed Screen'