Staying Ahead of the Evolving Trade Credit Landscape with Moody's Analytics Experts

Trade credit has always been a valuable resource for businesses growth, and can help to establish long-term customer relationships. But in current market conditions, Trade Credit Managers are under pressure to increase their productivity and reduce error rates. These demands mean that Trade Credit Managers need to be continuously learning. To help with that effort, we spoke with Moody's Analytics trade credit product and industry practice leads, Amanda Panza and Greg Johnson, about what to expect next in the world of trade credit.

Would you say the global disruptions of recent years are still playing a large role in the world of trade credit or have businesses "back to normal" now?

Amanda Panza: Global disruptions are still playing a large role in the world of trade credit. For example, Trade Credit Managers now need to stay on top of rapidly evolving sanctions being put on entities. High levels of inflation will also affect how certain companies do business as well.

Greg Johnson: I would agree with that and also add that a growing number of companies are talking about efficiency and are seeking to streamline and automate the credit decisioning process. In addition, the credit departments are being contacted by other parts of the business, like procurement and supply chain management, to understand the data and tools they have and are using this information to assess the risk of businesses.

With the influx of economic uncertainty that many businesses are facing - what type of information do you recommend companies use to predict future payment risks of their customers?

Amanda Panza: Trends play a factor in how a trade credit professional makes a decision, it's not always a fixed data point in time. So, companies should look for trend information, like macro-economic trends, emerging risk trends such as ESG or cybersecurity, and perhaps most importantly, behavioral trends like how a company is paying its other business partners over time.

Greg Johnson: I definitely agree with Amanda on trend data. Many companies are also dealing with new markets and thus are in need of tools to assist with the expansion into new markets.

Would you say that simply adding more data to a credit analysis process is enough to improve understanding of a companies' financial health? Why or why not?

Greg Johnson: More data isn't helpful unless the data is understandable and actionable in your particular "operating reality."

Amanda Panza: Exactly. Although it can be valuable for companies to have as much data as possible – if there is no strategy behind it to benefit their core customers it's essentially unusable.

Typically, trade credit professionals consider the potential risks involved with a current or future business partner. But with the right data, they could also consider potential growth opportunities associated with changes in a client/prospect account. What opportunities for growth have you seen with trade credit data?

Greg Johnson: There are plenty of growth opportunities with trade credit data… like the ability to offer higher credit limits across portfolios and identifying the most valuable customers and prospects or companies being able to A single source of truth to devise more effective sales strategies and facilitate better coordination across sales teams. By improving the effectiveness of the two-way relationship between sales and finance it saves both functions time and resources. But first, a trade credit professional needs to ensure when reviewing a customer, supplier, partner or investment, that they are implementing a good process for reviewing the business. Integrated risk assessment provides a multi-faceted view of risks associated with businesses which makes implementing this layered view critical. It's also important to identify the different relationships across different functions within the business.

Amanda Panza: Agreed. Ultimately, using the data will allow a trade credit professional to best assess the potential of their business relationships.

What can trade credit professionals do to create a more efficient and streamlined process?

Amanda Panza: Automate as much as possible. Set standards and guidelines for decisioning.

Greg Johnson: They should also look at other areas of risks, such as cyber, ESG, sentiment, etc., to ensure their process takes everything into account in the first place.

For better or for worse – the world and business conditions are always changing, how can trade credit professionals feel confident that the data they have on a company will stand the test of time?

Amanda Panza: For trade credit professionals to feel confident in company information, it's important for them to have verified data that gives a full view of how a company does business. Factors such as regulations and ESG are also components that can be looked at when deciding the level of credit to extend to another company.

Greg Johnson: In addition, they need to ensure their data supplier has the most current updates available, and provides data to assess new risks and provide new perspectives on the same risks. Look for a data provider with a proven track record of investment, innovation, and delivery of relevant solutions.