

The Credit Manager's Field Guide to Signal vs. Noise

SIGNAL = data that changes a decision. **NOISE** = data that creates comfort but not clarity. *The goal is not more data — it is knowing which data matters.*

01 THE 6 KEY TRADE CREDIT SIGNALS

1. Payment Behavior TREND

- DBT trajectory — not a snapshot. Ask: compared to what, and when?
- Aging buckets lie. Trends reveal. Look at 6–12 month direction.

2. Financial Statement Signals

- Cash conversion cycle (CCC) lengthening = stress signal
- Quick ratio declining + payables growing = liquidity squeeze
- Debt-to-EBITDA > 6x: watch closely. Negative EBITDA: act now.

3. Trade & Bank References

- Read what's NOT said. "Satisfactory" means almost nothing.
- Best question: "Would you increase the line?" Listen to the pause.

4. UCC / Lien Intelligence

- Layered debt, blocked collateral, springing liens = red flag
- Clean credit score + heavy UCC activity = look harder

5. Bureau Data — Used Correctly

- PAYDEX / Intelliscore / FRISK@: each predicts differently
- A score is a snapshot. Plot it over 12 months. Watch direction.
- FRISK@ score of "1" = 10–50x average bankruptcy risk

6. MD&A in SEC Filings (Public Companies)

- Management must legally disclose material liquidity risk.
- "Our high debt may limit our ability to..." = a confession. Act on it.
- Most credit managers never read this. That is your competitive edge.

02 QUALITATIVE SIGNALS BEYOND THE BALANCE SHEET

Management Signals	Customer Behavior Signals	Market & Industry Signals
C-suite departures in clusters CEO/CFO turnover within 6 months LinkedIn: key exec tenure < 18 months	Order patterns changing suddenly Disputes increasing / contact avoidance Requesting extended terms repeatedly	Pricing power eroding (margin compression) New major competitor entered market Customer concentration > 30% of revenue

MONITORING TOOLS (free / low-cost): PACER.gov (federal litigation) · Google Alerts (news) · State court dockets · UCC search · LinkedIn (exec changes) · NACM trade group reports

03 EARLY WARNING TRIGGERS - AUTO-ESCALATE REGARDLESS OF PAYMENT HISTORY

- ⚠ C-suite departure (CEO, CFO, CLO)
- ⚠ DBT moves 15+ days in a single quarter
- ⚠ New UCC filing or lien by senior lender
- ⚠ Litigation filed by major creditor or DOJ
- ⚠ Credit insurer reduces or withdraws limit
- ⚠ MD&A language changes to include liquidity warnings
- ⚠ Customer requests extended terms after years of prompt payment
- ⚠ Supplier-side intel: others moved to COD or tightened terms

04 TIERED COUNTRY RISK POLICY - FOR EXPORTERS

TIER 1	TIER 2	TIER 3	TIER 4
Open Account (standard terms)	Documentary Collection (D/C)	Letter of Credit Required	Prepayment or Trade Credit Insurance Only
Low sovereign risk Strong rule of law Stable FX	Moderate risk Some FX volatility Adequate legal system	Elevated risk Weak institutions FX restrictions possible	High risk Political instability Sanctions exposure

KEY SOURCES: OECD Country Risk Classifications · Euler Hermes / Coface ratings · EIU Country Reports · EXIM Bank limits · FCIB Sovereign Risk Reports

05 KEY DIAGNOSTIC: Of the data sources your team reviews every week, how many actually **changed** one of your last 10 credit decisions? High Frequency + Low Impact = **NOISE**. Start there. Full audit on page 2.

Wohlstetter (1962): *"We failed not for want of the relevant materials, but because of a plethora of irrelevant ones."* See *Audit Worksheet on page 2*.

Your Signal Audit Worksheet

Data That Matters in Your Credit Practice

List the top 5–7 data sources your team currently relies on when making credit decisions. Score each on two dimensions, then identify your gaps and commit to two changes before your next credit review cycle.

Data Source / Input	Frequency of Use (Low=1 High=5)	Decision Impact (Low=1 High=5)	What It Actually Measures vs. What You Wish It Measured	Risk Type & Verdict
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e.g. D&B PAYDEX Score	Use: 3	Impact: 5	Measures past payment behavior; does not capture current liquidity stress or lien changes	Trade—Snapshot, not trend
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Frequency Score: 1=Rarely / 3=Often / 5=Every review, no exceptions **Decision Impact:** 1=FYI only · 5=Regularly shifts approve/decline/terms **Key Diagnostic:** High Frequency + Low Impact = **PURE NOISE**. Start there.

FINDINGS & COMMITMENTS

● My Highest-Noise Input (high use, low impact)
 Name the data source:

 What am I going to do differently?

● Signal I'm Missing Entirely
 Name the missing signal:

 First step to add it before next cycle:

⚡ My 3 Auto-Escalation Triggers
 Trigger 1 (always escalates regardless of payment history):

 Trigger 2:

📅 My 30-Day Commitment
 One process change I will implement:

 Who I need to involve:

Trigger 3:

Success looks like:

Signal and Noise: Using Data to Make the Best Credit Decisions

Format: 75-Min Seminar

Time: 3:45–5:00 PM, June 9

Audience: Emerging to Senior

Focus: Trade · Strategic · Sovereign

■ Trade Credit

■ Strategic Partners / JVs

■ Sovereign / Export Risk

■ All Audiences

01 0:00–0:08 (8 min) Opening: Why Signal vs. Noise Has Always Mattered

Pearl Harbor, the Wohlstetter Principle, and the modern data overload problem · All Audiences

- Pearl Harbor: 6 warnings available before the attack — all missed. Not a failure of data. A failure of signal.
- “We failed not for want of the relevant materials, but because of a plethora of irrelevant ones.” — Wohlstetter (1962)
- Personal story: Enron, Andy Fastow, a LIBOR-to-natural-gas swap, and why behavior is the signal
- Enron held investment grade until 4 days before bankruptcy. The score lied. The behavior told the truth.
- Framing: Signal = data that changes a decision. Noise = comfort without clarity.

02 0:08–0:12 (4 min) Audience Engagement: Two Questions for the Room

Verbal show-of-hands to calibrate audience experience and identify gaps · All Audiences

- Q1: “Think about your last regretted credit decision. How many data sources did you actually consult?” (Raise hands: 1 / 2–3 / 4+)
- Q2: “Raise your hand if your credit scope extends beyond trade terms.” Then: “Keep it up if that came with formal training or written policy.” Watch the drop.
- The gap between scope and preparation is your teaching moment.

03 0:12–0:24 (12 min) The Signal Stack: Trade Credit Fundamentals

The non-negotiable data hierarchy for short-term trade risk · Trade Credit · All Audiences

- Payment behavior TRENDS (not snapshots): DBT trajectory, aging analysis, 12-month direction
- Financial statement signals: CCC, DSCR, quick ratio trends, payables growth
- Trade and bank references: reading what’s not said; reference selection bias
- UCC filings and lien intelligence: layered debt, blocked collateral, springing liens
- Bureau data: PAYDEX vs. Intelliscore vs. FRISK® — what each predicts vs. describes
- MD&A language in SEC filings: the public confession most credit managers never read
- Core principle: a static snapshot is noise. A trend line is a signal.

04 0:24–0:34 (10 min) Beyond the Balance Sheet: Qualitative Signals

The soft data most credit managers underweight — and why it outperforms · Trade Credit · Strategic Partners

- Management quality: C-suite tenure, departure clusters, LinkedIn intelligence (ethical use)
- Customer behavior signals: order pattern changes, dispute frequency, contact avoidance (60–90 day leading indicator)
- News and litigation monitoring: PACER, state dockets, Google Alerts — cost: nearly zero
- Industry position: pricing power erosion, customer concentration, competitive entrants
- Supplier-side intelligence: if your customer’s suppliers moved to COD, that’s a signal bureaus won’t show you — yet

05 0:34–0:46 (12 min) Longer-Term Risk: Partnerships, JVs & Strategic Relationships

When you’re not just extending credit — you’re sharing a future · Strategic Partners

- Why trade credit tools are insufficient: different time horizon, different failure modes
- Structural signals: governance rights, exit provisions, capital call obligations, indemnification exposure
- Ownership signals: beneficial ownership (UBO) research, OFAC screening, PEP exposure

- Financial signals at depth: quality of earnings analysis, audited vs. compiled vs. reviewed financials
- Reputational and ESG signals: regulatory history, litigation patterns, cultural alignment

06 0:46–0:56 (10 min) Sovereign Risk for the Exporting Credit Manager

Country risk is not a banking concept — it's in your receivables · **Sovereign / Export Risk**

- Four risk types: transfer risk, convertibility risk, political disruption, legal enforceability
- Key signal sources: OECD classifications, Euler Hermes/Coface, EIU, EXIM Bank, FCIB
- Macro signals: current account deficits, FX reserve levels, debt-to-GDP trends, political stability indices
- Documentary tools as mitigation: LC requirements, export credit insurance, D/C vs. open account
- Building a tiered country exposure policy — Tier 1 through Tier 4 (see cheat sheet, page 1)

07 0:56–1:08 (12 min) Case Studies: Real Cases, Real Consequences

Two companies. Two outcomes. Both had the same data available. · **Trade Credit · All Audiences**

- RITE AID (Signal Identified): FRISK® score at "1" for 18+ months before Oct 2023 filing. \$3.3B debt vs. \$135M cash. Three execs departed in 7 months. MD&A disclosed the risk explicitly. Disciplined suppliers tightened terms and moved to COD. McKesson had \$668M exposure — and managed it.
- CARILLION (Fooled by Noise): FTSE 250, 450+ government contracts, growing dividend. But: paying suppliers 120+ days, £500M debt hidden via Early Payment Facility, £1.57B goodwill never impaired. Short sellers flagged it in 2015. 30,000 suppliers owed £2B at collapse. Only £31M covered by trade credit insurance.
- The lesson: the noise was the brand. The signal was the trend. Data was available — to anyone willing to look past the surface.

08 1:08–1:15 (7 min) Building Your Signal Framework & Q&A

Leaving with tools, not just ideas · **All Audiences**

- The Signal Audit: list top 5–7 sources, score Frequency and Decision Impact, find the gap (high frequency + low impact = noise)
- Tiered monitoring cadence: match review frequency to exposure size and risk profile
- Early warning trigger system: define 3–5 signals that auto-escalate any account regardless of payment history
- Communicating risk to leadership: dollars at risk, not scores — language that gets action
- Resources: NACM, FCIB, CreditRiskMonitor FRISK®, OECD, Euler Hermes/Coface
- Closing question: "Of the data sources your team looks at every week, how many actually changed one of your last 10 credit decisions?"