From the Frontlines: How NACM's CMI Empowers Credit Professionals to Shape Business Strategy

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Credit professionals play a vital role throughout the entire order-to-cash process, giving them valuable insights into business and customer behaviors. Their forward-thinking approach stems from their focus on future payment probabilities. Therefore, it's essential for the credit department to communicate this expertise effectively.

NACM's Credit Manger's Index (CMI), created in 2003, has been a leading indicator in the business cycle. It provides monthly, real-time results that can indicate the state of the economy up to six months in advance. "It serves as a barometer for credit management, offering insights into economic activity from a financial perspective," said NACM Economist Amy Crews Cutts, Ph.D., CBE. "Unlike GDP that is revised three times by quarter-end, the CMI results tell you what is changing each month. From a policymaker's perspective or a business strategist's perspective, knowing what is changing in real-time is so much stronger than waiting until it passed."

Why it matters: Credit professionals, armed with insights from the CMI, can make informed decisions that not only safeguard their companies' financial health but also provide early warnings about economic trends, giving them a strategic advantage in navigating market fluctuations.

How Does the CMI Work?

When the CMI was first developed, the founders inverted all the unfavorable indexes so that a rise in the index, especially above 50, indicates improved economic conditions. Conversely, if the index falls below 50, it signals a weakening or deteriorating situation. This approach allows you to average the data and discuss the overall index. "When unfavorable factors, such as credit application rejections, increase, it signifies fewer negative events, meaning conditions are improving," Cutts said. "Credit application rejections are negative because they indicate that the applications were either not robust enough to warrant credit or possibly fraudulent. A rise in rejections often suggests companies are in poor financial health. Similarly, an increase in accounts sent to collections indicates that these accounts have been overdue for a while and are now being pursued by third-party collectors to recover payment."

Favorable factors, such as increased sales and increased collections for both overdue accounts and those paid on time, indicate a favorable index. Additionally, a rise in new credit applications reflects company growth and increased credit needs. When completing the CMI, you simply need to indicate whether a factor is better, worse or the same from the month prior.

Adding Value to the Credit Profession

By participating in the CMI survey, credit managers provide valuable, unique insights that enhance the profession. The comments entered at the survey's end serve as a more accurate representation of credit management. "While the numbers provide valuable data, the comments are vital for interpreting significant changes and adding depth to the survey's narrative," Cutts said. "It's important to note that specific segments, companies or individuals are never disclosed and if attribution were ever necessary, I'd seek permission first. All in all, the more participation we have, the stronger the results are that indicate where the economy is headed."