Options for Credit Management Strategies

WHICH ONE IS RIGHT FOR YOUR BUSINESS?

SELF-INSURANCE

Use of a bad debt reserve to offset losses should any customers become unable to pay

+ Minimal cost to the company in years with no losses
+ Simple to administer

— Company bears burden and cost for internal credit management resources needed to mitigate risk
— Depending on risk tolerance, may result in overly conservative limits that reduce potential revenue
— Ties up working capital and impacts capital allocation of the balance sheet
— Typically does not protect from large and unexpected catastrophic loss
— Utilize unreliable third party data services

FACTORING

An agreement with a third party company to purchase accounts receivable at a reduced amount of the face value of the invoices

+ Immediate access to cash
+ Option to outsource invoicing, collections, and other bookkeeping activities
+ No long-term contracts
+ Doesn't require collateral

— Depending on contract structure, may not protect against non-payment events
— Loss of control of customer relationships
— Capacity constraints associated with line availability
— Cost range between 1% and 4% of a receivable plus interest on the cash advance that can equal up to 30% in annual interest
— Does not indemnify full invoice

LETTER OF CREDIT

A bank guarantee that the payment of a buyer's obligation will be received on time and in the correct amount

+ Security for both seller and buyer
+ Financial standing of the buyer is replaced by the issuing bank
+ Because of the guarantee, seller can borrow against the full receivables value from its lender

— May only covers a single transaction for a single buyer and can be tedious and time consuming
— Expensive, both in terms of absolute cost and in terms of credit line usage with the additional need for security
— Ties up working capital for the buyer
— Competitive disadvantage when competitors are offering open terms
— Lengthy and laborious claims process

CREDIT INSURANCE

A business insurance product that protects a seller against losses from nonpayment of a commercial trade debt

+ Empowers companies to confidently grow sales without credit concerns
+ Guaranteed protection against non-payment or slow payment
+ Enhances efficiency of a company's internal credit department with fast credit limit requests and ongoing buyer monitoring
+ Allows exporters to offer safe, open terms overseas
+ Expands a company's financing options by increasing its borrowing base with secure receivables

— Most cost-effective for businesses with $3M+ in B2B sales
— Not suited for companies with government or consumer sales

The goal of any credit management strategy is to balance aggressive sales growth while minimizing bad debt loss. All strategies utilize a two pronged approach to accomplish this goal: information and protection. With the ultimate in both, Euler Hermes provides an unparalleled advantage that all businesses trading on open terms need to explore. For more information, visit **www.eulerhermes.ca.**

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