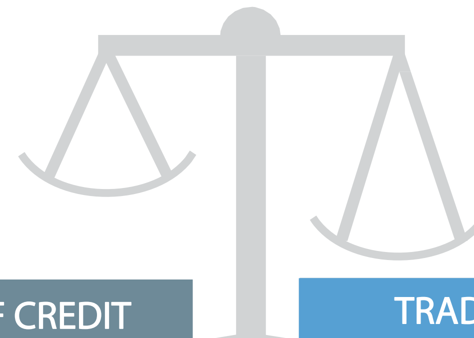
Credit management strategies

Which strategy is good for your business?



SELF PROVISIONING

Use of savings to offset losses when customers cannot pay

- Minimal costs when there are few losses
- Easy to manage

- The company bears the charges and costs for internal credit management resources that are necessary for limiting the risks
- Depending on the risk tolerance, this can lead to hesitancy about accepting orders, potentially resulting in a decrease in revenues
- Locks up some of the working capital and worsens the balance sheet ratio
- Offers no protections against large and unexpected losses
- Greater dependency on unreliable data from external sources

FACTORING

An agreement with an outside company to buy accounts receivable against a reduced amount of the nominal value of the unpaid invoices

- Immediate access to money
- Option to outsource invoicing, collection and other bookkeeping activities
- No long-term contracts
- No collateral required

- Depending on the contract, no protection can be offered against non-payment
- No control over customer relations
- Independent of the interest rate, a factoring fee also had to be paid
- The factoring company can refuse to include invoices on specific debtors in the pre-financing

LETTER OF CREDIT

Awritten (bank) guarantee providing that, when the condition established therein occurs, the guaranteed sum will be paid out uponrequest

- Security for both seller and buyer
- Financial capacity of the buyer is replaced by the lender
- The full amount of the outstanding balances can be used to obtain financing

- Can only cover a signle transaction for a single buyer and is very timeconsuming
- Is relatively expensive, both in absolute costs and in the utilisation of the credit facility
- Locks up working capital of the buyer
- Long drawn-out claims process

TRADE CREDIT INSURANCE

A business insurance that offers protection against losses by non-paying customers

- Gives companies the possibility to grow withour worrying about losses
- Guaranteed protection against non-payment or delayed payment
- Improves the efficiency of the financial department within the company thanks to fast credit limit applications and monitoring of the accounts receivable
- Makes export to unfamiliar countries possible
- Better possibilities for financing due to more secure debtor collateral
- Production risk and pre-risk co-insured

- Not for use by government institutions and private individuals

EULER HERMES
A company of **Allianz**

The objective of a credit management strategy is to strike the right balance between turnover growth and minimisation of losses. All strategies use a two-pronged approach in order to achieve this goal: information and protection. With both information and protection, Euler Hermes offers you the best credit management strategy. For more information, visit www.eulerhermes.be