

## 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](http://www.eulerhermes.ca).