Credit Management Group UK
Experts in cash flow solutions

Cost of Credit

How much is customer credit REALLY costing your business?

Tips & advice for effective credit management

The best advice any business can follow to ensure they do not experience any credit control issues is to make sure payment is received in full before providing any goods or services.

But with any business to business transactions, unless your product or service is unique and very much in demand, you will find that by not offering credit terms to your customers, you may put yourself at a competitive disadvantage.

Any decision to offer credit contains an element of risk and involves you, the supplier, in cost.

Costs can be divided into 5 different headings:

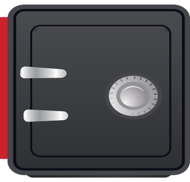
Credit Management Group UK (Merseyside) Ltd
Wirral Office: Innovation House, Power Road, Wirral CH62 3QT
Manchester Office: Manchester One. 53 Portland Street, Manchester M1 3LD

Call **0845 054 0504** or email
info@cmgroupuk.com

Credit Management Group UK
Experts in cash flow solutions

www.cmgroupuk.com

1 Financing



In essence, extending credit means lending money. In providing the customer with a product or service, you, the supplier are lending the customer money, interest free for a defined period.

You may be doing this by operating an overdraft and paying interest. Therefore it is vital that finance costs to a business are kept to a minimum by strong credit management procedures.

Cost of slow payment

The example below shows the costs of extending credit to customers and is based on interest rate of 7.5%.

If you offer your customers 30 days payment terms and have turnover of £1m the costs in interest alone is £6,164 if all your customers pay you on time.

However if all your customers pay you on average 15 days beyond agreed terms of 30 days, the cost in interest is £9,247.

No. Days Outstanding	Turnover				
	£500k	**£1m**	**£3m**	**£5m**	**£10m**
15	£1,541	£3,082	£9,247	£15,411	£30,822
30	£3,082	£6,164	£18,439	£30,822	£61,644
45	£4,623	£9,247	£27,740	£46,233	£92,466
60	£6,164	£12,329	£36,986	£61,644	£123,288

Credit Management Group UK (Merseyside) Ltd
Wirral Office: Innovation House, Power Road, Wirral CH62 3QT
Manchester Office: Manchester One. 53 Portland Street, Manchester M1 3LD

Call **0845 054 0504** or email
info@cmgroupuk.com

2 Extended Credit

Late payment can cost businesses an incredible amount of money. It has a significant and negative effect on its ability to pay overheads and manage cash flow.

The business may therefore need to increase its own borrowings and in some cases may face liquidation.

Slow payment also damages the credit reputation of the supplier. The supplier can lose credibility. A further knock on effect is that the risk of bad debt increases. The older a debt becomes, the more difficult it is to collect.

Credit Management Group UK (Merseyside) Ltd
Wirral Office: Innovation House, Power Road, Wirral CH62 3QT
Manchester Office: Manchester One. 53 Portland Street, Manchester M1 3LD

Call **0845 054 0504** or email
info@cmgroupuk.com

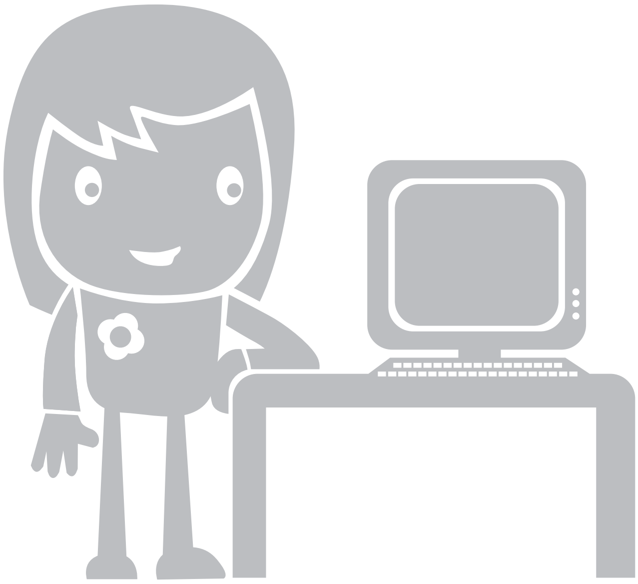
Credit Management Group UK
Experts in cash flow solutions

www.cmgroupuk.com

3 Administration

Offering credit to customers will always involve additional administration, which in turn increases costs.

Overdue accounts have to be administered effectively to reduce the financial cost to your business of customers paying beyond terms.



These costs can include:

- Stationery and other office expenses
- Overheads such as heat and rent
- Salaries for credit staff
- Setting up costs and status reports
- Collection costs such as legal fees

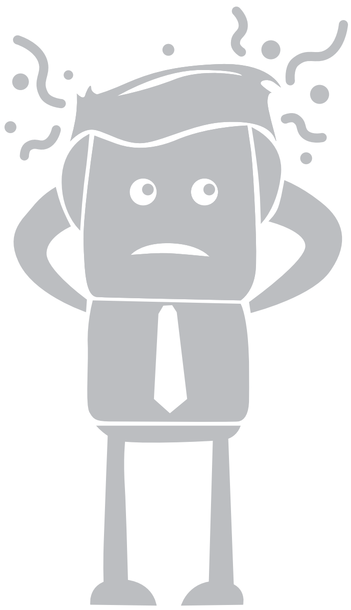
It is important to realise that effective credit management skills employed by a business can help to keep the administration and financial costs to a minimum. It is well worth an investment in time and cost of training staff to ensure your business has a robust credit policy and a clear 'order to cash' process.

Credit Management Group UK (Merseyside) Ltd
Wirral Office: Innovation House, Power Road, Wirral CH62 3QT
Manchester Office: Manchester One. 53 Portland Street, Manchester M1 3LD

Call **0845 054 0504** or email
info@cmgroupuk.com

4 Bad Debts

The definition of a 'Bad Debt' is a debt that is unrecoverable and is therefore the full amount of the debt is 'written off' (deducted from) the bottom line (net profit). A debt may become unrecoverable for several reasons.



- **Insolvency**

Your customer goes into receivership or liquidation (limited company) or bankruptcy (an individual such as a sole trader or partnership)

- **Disputed Invoices**

Where to pursue the debt through legal channels is not financially viable.

As there is always a cost of sales element to the amount 'written off' you will need to generate significantly more than the original debt to replace the debt.

In the examples below, if you suffer from a bad debt of £1000 and your net profit margin is 5% you will need to generate a further £20,000 in sales to replace that bad debt.

Bad Debt	**Additional sales to recoup bad debt**		
£1,000	£20,000	£10,000	£6,667
£5,000	£100,000	£50,000	£33,333
net profit	5%	10%	15%

Effective credit management can help you to minimise risk and protect your profit.

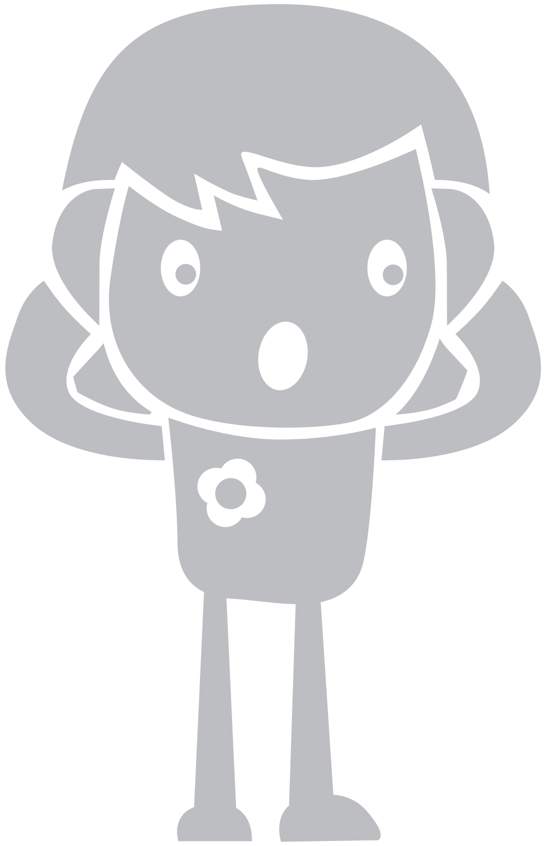
Credit Management Group UK (Merseyside) Ltd
Wirral Office: Innovation House, Power Road, Wirral CH62 3QT
Manchester Office: Manchester One. 53 Portland Street, Manchester M1 3LD

Call **0845 054 0504** or email
info@cmgroupuk.com

5 Lost Opportunities

You have probably heard the phrase ‘Cash is King’. Cash tied up in your debtors is cash that can not be used in your business to pay off your overheads, to invest, or to buy other goods or services to develop your business.

You may be able to borrow against cash owed to you by your customers (your debtors ledger balance), which is a business asset, but only at additional cost.



Businesses need to extend credit and therefore must accept the costs incurred.

However, it is vital to understand that these costs must be controlled. Slow payment and bad debts significantly increase costs and impact on the profitability of the business as a whole.

Credit Management Group UK (Merseyside) Ltd
Wirral Office: Innovation House, Power Road, Wirral CH62 3QT
Manchester Office: Manchester One. 53 Portland Street, Manchester M1 3LD

Call **0845 054 0504** or email
info@cmgroupuk.com

Credit Management Group UK
Experts in cash flow solutions

Credit Management Group UK provides a **complete solution** for your commercial credit management issues

Training Services

Wide range of courses to enhance yours or your staff's credit management knowledge & skills, instantly improving collection performance.

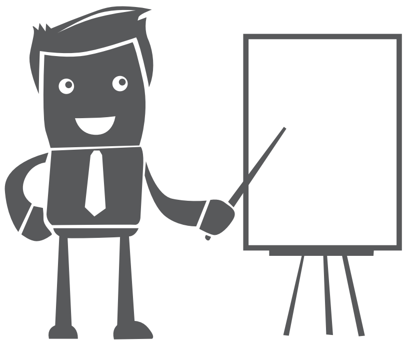
Outsourcing Services

Extremely cost effective and very popular, we seamlessly integrate with your business to act as your "virtual" credit control department.

Consultancy Service

CMG UK have a proven track record in delivering and implementing Credit Management solutions to both large corporate and SME clients.

Want to know more?



Call: **0845 054 0504** or
Email: info@cmgroupuk.com

Credit Management Group UK (Merseyside) Ltd

Wirral Office: Innovation House, Power Road, Wirral CH62 3QT
Manchester Office: Manchester One. 53 Portland Street, Manchester M1 3LD