

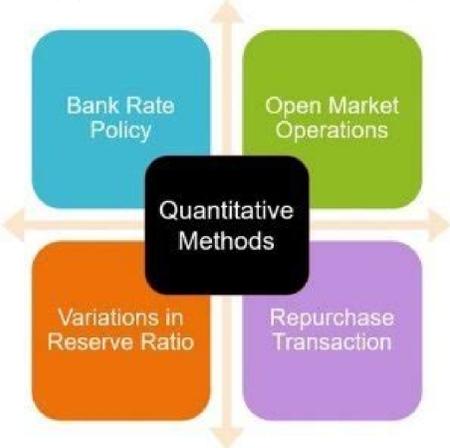
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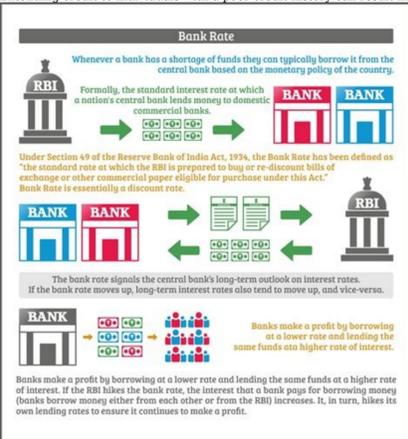
What is quantitative methods of credit control

Explain the quantitative methods of credit control.

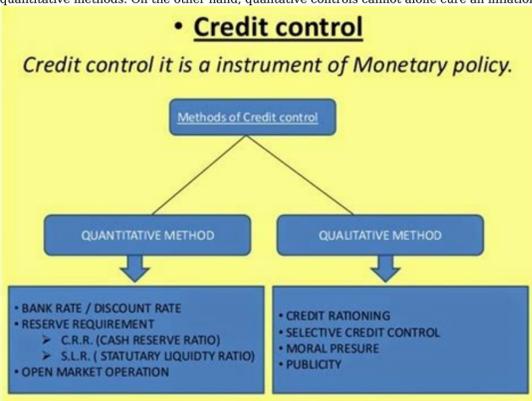
Credit control, also called credit policy, is the strategy used by a business to accelerate sales of products or services through the extension of credit to potential customers or clients. Generally, businesses prefer to extend credit to those with "good" credit and limit credit to riskier borrowers who may have a history of delinquency. Credit control might also be called credit management, depending on the scenario. Credit control is a business strategy that promotes the selling of goods or services by extending credit to customers. Most businesses try to extend credit to customers with a good credit history to ensure payment of the goods or services. Companies draft credit control policies that are either restrictive, moderate, or liberal. Credit control focuses on: credit period, cash discounts, credit standards, and collection policy. When a business uses credit control, it means they are taking steps to protect their business from risky borrowers as they issue credit. A business's success or failure primarily depends on the demand for products or services. As a rule of thumb, higher sales lead to bigger profits, which in turn leads to higher stock prices. Sales, a clear metric in generating business success, in turn, depend on several factors. Part of a company's efforts to boost its sales can include credit control. In general, credit control seeks to extend credit to a customer to make it easier for them to purchase a good or service from the business. This strategy delays payment for the customer, making the purchase more attractive, or it breaks the purchase price into installments, also making it easier for a customer to justify the purchase, though interest charges will increase the overall cost. The benefit of credit control for the business is potentially higher sales. The important aspect of a credit control policy, however, is determining who to extend credit to.



Extending credit to individuals with a poor credit history can result in not being paid for the good or service. Depending on the business and the amount of bad credit extended, this can adversely impact a business in a serious way.



Businesses must determine what kind of credit control policy they are willing and able to implement. A company can decide on the type of policy it wishes to implement when drafting its credit control policy. The options typically include three levels: restrictive, moderate, and liberal. A restrictive policy is a low-risk strategy, limiting credit only to customers with a strong credit history, a moderate policy is a middle-of-the-road risk strategy that takes on more risk, while a liberal credit control policy is a high-risk strategy where the company extends credit to most customers. Businesses that aim to gain higher levels of market share or that have high-profit margins are typically comfortable with liberal credit control policies. Companies that have a monopoly in their industry may be inclined to adopt a liberal control policy so that they can hold onto their monopoly. However, if the monopoly is unthreatened by other competitors, the company may adopt a restrictive policy. Credit policy or credit control primarily focus on the four following factors: Credit period: Which is the length of time a customer has to pay Cash discounts: Some businesses offer a percentage reduction of discount from the sales price if the purchaser pays in cash before the end of the discount period. Cash discounts present purchasers an incentive to pay in cash more quickly. Credit standards: Includes the required financial strength a customer must possess to qualify for credit. Lower credit standards boost sales but also increase bad debts. Many consumer credit applications use a FICO score as a barometer of creditworthiness. Collection policy: Measures the aggressiveness in attempting to collect slow or late paying accounts. A tougher policy may speed up collections, but could also anger a customer and drive them to take their business to a competitor. A credit manager or credit committee for certain businesses are usually responsible for administering credit policies. Often accounting, finance, operations, and sales managers come together to balance the above credit controls, in hopes of stimulating business with sales on credit, but without hurting future results with the need for bad debt write-offs. A growing number of buy now, pay later (BNPL) apps allow you to make a purchase and pay for it over time with a few regular payments and no interest. Some BNPL apps include Affirm, Sezzle, Afterpay, and Perpay. Many buy now, pay later (BNPL) apps do not charge interest as long as you make the payments on schedule. Generally there are no fees, but each BNPL has its own terms. If you make payments to an installment loan on time, your credit score will not be affected by the installment plan. However, if you fail to make the payments according to the terms, your lender could report the information to the credit bureaus, which would likely result in a lower credit score. Credit control can help a business boost its bottom line by potentially driving sales, but a business must be aware of the risk of borrowers with poor credit histories. Each business must determine which type of credit control will be best for them. This article will help you to learn about the difference between quantitative and qualitative credit controls. A pertinent question that can be conveniently raised is: are quantitative credit controls more important or qualitative? In theory as well as in practice, there is much to be said in favour of qualitative controls and against an indiscriminate use of quantitative methods. On the other hand, qualitative controls cannot alone cure an inflationary situation.



Quantitative controls aim at regulating the overall volume of bank credit, rather than the particular made use of it. 'Selective' or 'Qualitative' controls may have an important direct impact on particular sectors of the economy. But their effectiveness is limited. A special control may restrain direct bank loans to finance stock market speculation, but it cannot prevent the use of other bank credit for this purpose. Another big weakness of selective controls is that they directly restrict individual choice among alternatives. Special controls on housing credit, for example, mean that the government diverts consumers away from buying houses to other ways of spending money. General controls, by contrast, limit the total amount of money but they don't try to influence what kind of spending the borrower does. However, selective credit controls have own merits. For example, during inflation, quantitative controls are likely to pull the economy down to depression, if applied too severely. They are jerky in their operation. Fear of a shortage approach leads many observers to prefer selective or qualitative restraints to check inflationary loans. They argue that the problem is usually centered in some particular sector of the economy, and that to use general restraint is to risk killing off the whole boom in order to get at the offending sector. The boom may be caused by excessive consumer spending on durables, or excessive credit-financed housing or rampant stock market speculation. All these factors may be running the boom so fast as to endanger the whole prosperity. But soft spots remain in other parts of the economy. In these circumstances, the right policy will be to adopt real estate credit control, controls on down payment sales of consumer durables and fixing margin requirements for stock market speculative credit. If we restrict ourselves to quantitative methods, with the speculative mood in real estate and a spending spree on other consumer durables, it might take very high interest rates to damp real estate and other demands, and these would risk killing off the entire boom. Direct restrictions on these special sectors can nip the over-expansion there with little danger to the rest of the economy. But as, we noted above, selective controls have their own weaknesses. Uneven enforcement is the greatest danger of such special controls. Selective credit controls are not a real substitute for general credit restraint, when in an economy-wide inflationary boom is the problem. However, they can play a useful, though modest, role for restraining particular kinds of credit extension. They are a good supplement to the quantitative controls.