



Retail Point of Sale Credit Explained

Firstly thank you all for the positive comments on the first factsheet edition 'Matching Credit Strategy with Marketing Strategy'. This, and future editions can be found at www.5mconsulting.co.uk

I'd proposed a number of topics for future editions within the first edition but some of you have had other ideas.

I was asked "OK Mark you've been in charge of point of sale operation in a major finance house; what are the questions you didn't want to be asked?" So listed below are a selection of the difficult ones!

If you have any suggestions on topics for future editions just email me at markmurphy@5mconsulting.co.uk and I'll see what I can do.

A few of you were also a little confused as to how I help retailers. I actually help all companies utilising any form of finance to help their sale. So if you have questions regarding your customer finance offering and how to save money; improve your accept rate; or the level of service you should expect; or even how to switch supplier; then please let me know.

Regards
Mark Murphy, 5M Consulting Ltd
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Difficult Questions For Your Finance Provider

The most difficult questions were always those that ultimately impacted on the bottom line, but you might be surprised on how easy it is to keep your finance provider on the back foot. Remember your business will be important to them. The format of this publication doesn't allow for an exhaustive list of questions but you may find some of these interesting.

- **How many of my customers go the full term on the loan you give them?**
Lenders will make an assumption on the early settlement rate at the outset. Ask them what this is and to supply this info periodically, as an increasing settlement rate on Interest Free Credit (IFC) improves their profitability, and should mean lower costs to you. Yes, people really do pay IFC off early even though it's not costing them anything.
- **How would you feel if we gave some of our business to another provider?**
This is usually the last thing a finance provider wants to hear as it will reduce the amount of business they receive and will probably reduce their margin as you play one provider against another. In a market that has seen its fair share of company withdrawals it's a smart tactic and might also be asked with another difficult question.....
- **You appear to be declining more and more of our customers for credit, why?**
XYZ finance house have taken a look at these declined customers and say they would approve about 20% of them. While they'll charge us a little bit more for this service, would you do they same for their declined applications? Yes many providers do this and a future factsheet, 'The Value of 2nd Lining', will cover how this works and some of the pro's and con's of this approach.

- **As rates have fallen dramatically what is the lowest price you'll go to?**

This is usually an attempt to understand the finance house's margin and when revealed usually leads to a question about how are you going to reduce your costs. It may surprise you that most point of sale providers operate on a 1% profit margin so don't push too hard!

- **How many of our customers go into arrears?**

This is likely to be your finance providers number one headache over the next twelve months so try and understand how much worse it might get before your prices increase. If you want to be specific ask about those customers going 2 or more months in arrears, the 2+ rate. Last year the industry average was 4.2%, but this differs by sector and more importantly by product type.

- **Could you reduce your price?**

This on the face of it is always a difficult question to answer but usually leads to more sensible discussions about how credit is used and how other products could be trained in to staff.

- **We are having to discounting heavily is there anything you can do to help?**

This is a big issue for the finance provider as their pricing model is hugely sensitive to average balance. Most of the processing costs are relatively fixed so if average balance is reducing margins are squeezed. This also works the same in reverse so if you average transaction value is increasing, for example if you are bundling product sales, then your provider's margin is increasing and there should be more room for negotiation.

So if you hadn't ever thought about some of these areas, you might want to pose some of these questions to your provider today.

Mark Murphy, MBA, CEO 5M Consulting Ltd

Mark Murphy is CEO of 5M Consulting offering Financial Services Consultancy and Strategic Change advice. Mark is a lending specialist, most recently running Hitachi' Capital's Consumer credit operation in the UK, but also having work at other finance houses, i.e. First National and HFC. He has extensive financial services experience; while Mark was a general manager at a top 5 building society he set up their unsecured operation; in addition Mark has managed the teams responsible for Abbey's mortgage, unsecured lending, card and banking products. Having sat on many of the senior decision making committees at the FLA, BBA and VISA he has a unique view of the finance sector after 24 years in the business.

Future factsheets include:

- How do I evaluate the performance of my lender against others?
- Risk Management
- Service - What should you expect from your lender
- The Value of 2nd Lining
- The Impact of Interest Rate Decreases
- The Impact of PPI sales at POS demise in 2010
- How credit is used in different sectors – what is there to learn?

For more
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