

Use of credit

In credit the buyer buys and uses the product but pays later for the product or service

Promise to buy now and pay later

The buyer is able to use the product even though he/she has not made the payment

Increased use of credit

The use of credit has increased

All businesses are ready to sell their products or services on credit

The sales have increased due to credit

The bad debts have also increased

Bad debt is the money which is not recovered due to non-payment of buyer in case of credit sale

Advantages of credit to the buyer

Can buy goods which are not affordable

Increased standard of living

Payment can be made in installments

Convenient (it is easy to use and carry credit card)

Disadvantages of credit to the buyer

The seller will charge interest on credit

Problem in making the payment

Social problems

Fake

Advantages of credit to the seller

Increased sales

Gain customer loyalty

Out of date stock is usually sold on credit to get rid of it

Seller charges interest and offers no discount on goods sold on credit

Disadvantages of credit to the seller

Money is sometimes not recovered from the buyer (bad debts)

Late payment

Cash flow problem

Types of credit

Hire purchase
Extended credit
Store cards
Credit cards
Informal credit

Hire purchase

Ownership remains with seller until the last payment
Payment is made in installments
Interest is charged
Examples of things bought on hire purchase: cars, televisions

Advantages of hire purchase

To seller

- Increased sales
- Owns the product until the last payment

To buyer

- Buy products and satisfy needs
- Increased sale revenue

Disadvantages of hire purchase

To seller

- Credit may become bad debts
- Management team has to be hired thus increasing costs

To buyer

- May lose the product if payment is not made
- Social problems
- Higher price than the market paid

Extended credit

Extended credit given to customer
Facility provided by the departmental stores
The buyer buys and uses the product
The buyer can resell the product as he/she is the owner of the product

Advantages of extended credit

To seller

- Increased sales

To buyer

- Use the product but pay later
- Can resell the product

Disadvantages of extended credit

To seller

- Recovery of the money is a problem

To buyer

- Buyer has to pay interest
- Buyer cannot return the product if he does deem it as fit

Store cards

Plastic cards issued by departmental stores to the customers

Credit limit is given

The amount used on the card has to be paid off end of the month

Advantages of store cards

To buyer

- Interest free purchase
- Extra services

To seller

- Increased sales
- Customer loyalty

Disadvantages of store cards

To buyer

- The customer tends to overspend as he/she does not have to pay now

To seller

- Bad debts



Credit card

Plastic card owned by the credit card holder and issued by the banks

Credit limit is given

No interest charged if amount paid end of the month

3% of sales given to credit card Company as commission

Master card and Visa

Advantages of credit cards

Convenient to use

Easy obtain cash

Increased standard of living

It is used all over the world

Disadvantages of credit cards

Cards holders normally overspend

Credit card frauds

Disputes and social problems due to payment issues

Use of credit cards in developing countries is limited

