ZXC Co currently has income of $30 million per year, of which 80% is from credit sales, and a net profit margin of 10%. Due to fierce competition, ZXC Co has lost market share and is looking for ways to win back former customers and to keep the loyalty of existing customers. The sales director has pointed out that a major competitor of ZXC Co currently offers an early settlement discount of 0.5% for settlement within 30 days, while ZXC Co itself does not offer an early settlement discount. He suggests that if ZXC Co could match this early settlement discount, annual income from credit sales would increase by 20%.

Credit customers of ZXC Co take an average of 51 days to settle invoices. Approximately 0.5% of the company's credit sales have historically become bad debts each year and written off as irrecoverable. The finance director has been advised that offering an early settlement discount of 0.5% for payment within 30 days would increase administration costs by $35,000 per year, while 75% of credit customers would be likely to take the discount. The credit controller believes that bad debts would fall to 0.375% of credit sales if the early settlement discount were introduced.

ZXC Co has an average short-term cost of finance of 4% per year. Assume that there are 360 days in each year.

Required:

(a) Evaluate whether ZXC Co should introduce the early settlement discount. (6 marks)

(b) Discuss TWO ways in which a company could reduce the risk associated with foreign accounts receivable. (4 marks)