DECISION IMPORTANCE FOR CUSTOMERS MANAGEMENT

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Abstract

The Decision, policy loans - customers, depends on the nature of this kind of net profit: if positive, will decide to extend credit - customers, if negative, will seek another way of incentives to customers (possibly a rebate on sales) if they agree to reduce the period for paying the bills.

Keywords*: customer, management, buyer loans, vendor loans, credit*

JEL classification: *C02, M10, M21*

1. Introduction

Customers are debts of the company, resulted in the delivery of goods and / or services that have a certain maturity to collection. By maturity, customers can:

- Collect immediate (spot payment) in cash or have the payment date after a the number of days (3-5 days)
- With collection (deferred payment) after a period of time agreed between operators. The 30, 60 and 90 days are the most common, but can be arranged longer periods of time, even over a year
- Depend on whether you respect or not the payment terms, an exception may occur and customers with overdue bills or insolvent clients can not be charged.

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2. Customer Management

Customer management is the set of methods and tools for efficient use of capital assets in commercial loans. Commercial loans have a broader sense than customers and include:

1) Vendor loans are credit sales of goods. The company can be of two types, namely the borrower under supplier credit, equipment, materials and so on, and the lender-customer credits for work performed or products delivered to its beneficiaries;

2) Buyer loans, representing advance payments. In this case the undertaking may be the beneficiary of advances paid by customers for production and paying advances to suppliers of equipment or materials. Appear as a pre buyer loans by beneficiaries, manufacture products that they intend to procure. They are used in mining processes with long production cycle (construction, agriculture).

The volume of trade credits is impressive, exceeding in many cases, that of bank loans. This extension of trade credit is subject to dispute and criticism of the consequences that propagate in a market economy: the distortion of competition and annihilation effects unit credit policy.

Of all forms of commercial credit, loans and advances to suppliers, customers are the company's capital allocation and expresses to manage future funding need. Regarding loans, suppliers and advances received from customers, they are a source of financing by third parties, the operating cycle of the company.

For simplicity, we will develop further credit management issues - customer advances to suppliers are similar to these, and other forms of commercial credit will handle the funding of necessary assets.

Customer management objectives may include:

- Balance or reduce the capital allocated to customers, but the more closely the finance of these assets is, the more unsatisfied these customers will be and will reduce annual business sales;
- Extension of credit- customer, in order to stimulate customers and to increase their turnover. But to extend customer collection involves high costs with increased capital allocation to balance risks of insolvency clients and customers.

Even in formulating these conflicting objectives it is revealed the intricacy of customer management, requiring more and more empowerment of service (department) or countering strictly dedicated customer service specialist firms (factoring). The firm buys what the company bills their value, less commission, and manages them until collection. Organization may be interested in such services as performing immediate collection (discount) of a claim term, and is exempt from risk management and its customers, by retaining the customers with the discounts they offer.

3. Customer Management Components

Loan - customers is a real investment of capital of the company that can make a certain return. With this feature, it stands these relatively easy customer management components:

1) Capital investment for setting the loan balance - customers;
2) Cost of sales related to additional clients obtained by increasing duration;
3) Increasing the marginal cost of capital investment loans - customers;
4) The risk of customer insolvency;
5) Net profit margins.

Credit to a single client appears as a short-term capital allocation (from delivery to collection). Credits to all clients appear as a permanent allocation of capital of the company, representing an investment that must be financed continuously. The size of the investment is determined by turnover and average duration of loan - customers (customer kinetic rate), using the following relation:

$$\text{Loan – customers} = \frac{\text{Turnover duration of the loan - clients}}{360} \quad (1)$$

As the turnover is influenced by the customer credit period, it has a direct impact on the correlation between turnover and customer balance. Thus, the duration of loans - customer's greater sales volume increases both current customers and potential customers interested in by other payment extension.

1) Increasing market demand for products, by extending credit, customers will emit return efferent additional sales that can sufficiently motivate such a policy in managing customers. Due to the whole customer management, is more difficult to evaluate this rate. Therefore, we measure the marginal cost of a change in the length-customer credit. Per unit sold is

considered cost-effective additional amount of margin on variable costs (fixed costs and profit). Fixed cost settings remain constant variations in turnover. They are absorbed by the seller, original settings, and the related additional sales (by extension climate entities) are represented as elements of profitability, with profit corresponding to these sales. It is assumed that the increased turnover (by extension customers) do not involve changes in the structure of production. In an assessment closer to profitability can count only on net profits additional.

2) The marginal profitability of additional sales is opposed by the marginal cost of capital investment growth in credit-customers through its prolongation. Measuring the cost can be made according to the source of investment financing:

- own sources (surplus cash) at the opportunity cost; pay the balance of the amounts fixed customers. The opportunity cost can be set at the weighted average cost of capital (WACC), equal economic return required by investors undertaking to pay their capital.

3) Extension of customer collection is accompanied inevitably by the increasing of the insolvency risk of the customers. In a competitive economy, in part, in the process of concentration, a high number of bankruptcies and insolvency risk is higher for a longer time period.

4) Net marginal profit is the main component of customer management, guiding the company's financial policy regarding prolongation customers. Net marginal profit is determined as the difference between additional sales, on one hand and the cost of credit, customer growth and customer insolvency risk on the other.

Also, in determining the net marginal profit must be also taken into account the other expenses incurred by extension customers: customer service, administrative checking accounts new customers pay extra to extend customer management.

4. **Methods Used to Make Decisions in Customers Management**

The Decision, policy loans - customers, depends on the nature of this kind of net profit: if positive, will decide to extend credit - customers, if negative, will seek another way of incentives to customers (possibly a rebate on sales) if they agree to reduce the period for paying the bills.

Attracting new customers and keeping existing ones requires a continuous process of information, analysis and evaluation of their economic situation - financial and competitive position them.

- Most (about 70%) of customers obtain information through banks, whose expert services can provide general classification, not specific dates or numbers, not to affect confidentiality. These classes of business concerns, for example, to:

- customers with maturities difficult;
- customers with irregular payments;
- customers with protests for unpaid bills;
- clients unable to pay

Another source of relevant information on customers is the records produced by specialized bodies concerning certain characteristics of enterprises:

- commercial register;
- protests register to pay bills;
- commercial register of mortgage funds;
- mortgage and land register;
- register delays in state taxes, the CAS's .

Based on this information, a range of significant indicators for analyzing the client's situation is calculated: solvency, profitability, reliability, quality management team, legal form, etc..

Furthermore, the Western theory and practice developed financial methods for estimating the probability of reaching a client state of insolvency (bankruptcy). It takes into account a set of efficiency indicators and investigates a linear mathematical function in order to capture the best correlation of these indicators with the company's bankruptcy. For example, the model developed by Joël Michel Conan and Holder, on a sample of 200 French industrial companies, has the following function (M. Holder, J. Loeg, G. Portier, 1989):

$$Z = -0,16\,R_1 - 0,22\,R_2 + 0,87\,R_3 + 0,10\,R_4 - 0,24\,R_5 \qquad (2)$$

Where:

Z = score method is called and scores;

R1 = ratio of current assets (excluding inventory) and total assets;

R2 = ratio of permanent capital and total liabilities;

R3 = ratio of financial expenses to sales;

R4 = ratio of personnel expenses and value added;

R5 = ratio of gross operating surplus and total debt.

Based on this model has been established that a score equal to 0.210 is equivalent to a risk of bankruptcy probability of 100%, a score of - 0.068 means a failure probability of 50% and a score of -0 .164, a probability of 10% . Accepted threshold for a customer score is

-0.068, otherwise default risk has a probability of occurrence greater than 50%, leading to a significant risk of default for the enterprise.

Other models, such as the ones developed by the Bank of France, are more detailed (8 efficiency indicators) to better assess the risk of bankruptcy. In case of Romanian companies is necessary to build statistical and mathematical models appropriate to our economic reality (as it does some financial consulting companies in Romania).

Scoring method is an important means of foresight and caution in selecting clients. Representing an outside company analysis, this method should be accompanied by other more discreet qualitative information, such as losses in competitiveness, productivity, etc. unprofitable investments.

Monitoring and control customers, although determining a laborious activity, are essential to sound financial management. These can be handled with computers suitable for highlighting exceptions to customers. As with stocks, you can use the ABC method of tracking customers, as they are classified as:

- Group A - very important customer, accounting for about 60% of the total customers and about 10% of their number
- Group B - major customers (30% / 30%);
- Group C- minor clients (10% / 60%).

According to this distribution, is required to highlight the customer management policies: for example, close and constant supervision of those in group A, close supervision of those in group B and casual surveillance by sampling in case of group C. In order to control the group customers in groups A and B, there can be established maximum limits of debt balances which, when exceeded, trigger immediate firm action to restore the equilibrium.

Another possibility for control is to calculate the average period of collection for a customer. This can be determined based on the kinetic rate of the clients:

Average length of customer collection X

$$= \frac{.Average balance of the client X * 360}{\text{Re}\, alized turnover with..client X} \qquad (3)$$

This result is compared with the overall length collection customers, and when overruns over some reasonable limits, some operative actions for correction of deviations must be enforced.

5. Conclusions

We can say about client loans and advances to suppliers that they represent a capital allocation of the company and express a financing need for the future financial exercise. Suppliers' loans and advances received from clients represent a third parties financing source for the enterprise exploitation cycle.

Clients' evidence and control are instruments that have a high level quality in clients' management activity and they represent a management technique used for clients' records, clients' receivable amounts and clients' fidelity.

6. References

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