

COMMERCIAL DIAGNOSIS BASED ON ECONOMIC INDICATORS

Adela Suzana COLȚA¹
Cristina Mihaela NAGY²

ABSTRACT

Performance evaluation is important because it guides managers in the decision making process, as well as in planning, organization, control and coordination activities. The evaluation of past activities and the identification of variables that influence organizational performance allow the organization to efficiently fulfill its objectives. Without measurements it is not possible to make a correct assessment and consequently to improve the business. Determining critical indicators and their relationships is of particular importance for the success of the organization.

The notion of commercial diagnosis continues to cause numerous misunderstandings. Many managers assimilate the diagnosis with a simple exhaustive study and are pleased to collect maximum information about the enterprise and its environment.

In order to conduct a commercial diagnosis for the present study we used specific indicators applicable to our diagnosis, namely: market power, product attractiveness, and analyzes regarding clients, suppliers and evolution of sales. For reasons of confidentiality we will not use the real name and contact information for the company where we conducted our case study.

KEY WORDS: *commercial diagnosis, economic indicators, managers, market power, customers, suppliers.*

JEL: *M21, M40*

1. INTRODUCTION

Diagnosis helps managers avoid two types of risks to this uncertain business environment: the tendency to avoid change and inappropriate actions. Managers that activate in organizations that have been performing in the past are more reluctant and even manifest some resistance to change. Past results create a "race of success" by supporting the incorrect assumption that the best way to meet future challenges is to rely on strategies and tactics that have been successful in the past (Brătian, 2010: p.16).

Commercial diagnosis targets the product market of the enterprise, as well as its supply market and is performed on the units that act on the market and condition it, namely: products, customers, suppliers, competition, distribution mode of products and services (Niculescu, 2013: p.278 – 279).

In order to apply the commercial diagnosis procedure within an enterprise, the sources of information (Tripon et al, 2013: p.55) can be: commercial statistics, catalogs, tariffs, plans, budgets, internal documents, service notes, accounting documents, marketing plan, sectoral studies, customer interviews, interviews with officials, surveys, or professional magazines.

In terms of commercial diagnosis (Radu et al., 2008: p.87) most of assessment

¹ PhD Teaching Assistant, "Tibiscus" University of Timisoara, Faculty of Economics, Romania

² PhD Associate Professor, "Tibiscus" University of Timisoara, Faculty of Economics, Romania

criteria should be analyzed over time, for a period of at least three years, taking into account influence factors, which, neglected, can distort the final recommendations. For example, the turnover evolution, the simplest and most convenient commercial performance, has to be corrected taking into account the inflation rate, artificial price increases, and growth of the sales market.

ABC Ltd. company was founded in 2009 in Timis County, because the founders were convinced that the market is a place for all farmers and that they need to be stimulated to install milk dispensers throughout the county, promoting the healthy foundations of a quality trade with milk dispensers; thus helping farmers to build their own automated milk networks without going through the same difficulties. The applied franchise system aims to set up a common front of farmers under a unitary brand that guarantees quality and safety of the milk from dispensers to final consumers.

To carry out a long term commercial activity, selling milk from dispensers involves the use of a wide range of goods, spare parts and consumables. By negotiating on behalf of all franchisees larger quantities of all these ABC SRL company is in a position to obtain lower prices for each franchisor, as well as security of delivery and certainty of product quality.

Deliveries of goods are based on predefined orders and after a rigorous programming. For example, the bottle supply is made in quantities that ensure a balance between large stocks that reduce transport costs and storage capacities that immobilizes money in stocks.

ABC SRL furnizează service pe tot cuprinsul țării, piese de schimb atât pentru automatele de lapte cât și pentru întreaga gamă de echipamente și instalații din fermă, precum și consumabile pentru sălile de muls, toate la prețuri de producător.

Automatele de lapte au un sistem Bon, care permite tipărirea și eliberarea automată către fiecare client a bonului fiscal imprimat, cuprinzând informațiile standard cu sigla și adresa producătorului laptelui, data aprovizionării, data expirării, data și ora exactă a dozării, prețul pe litru, suma introdusă, cantitatea de lapte primită și restul returnat clientului. Sistemul de bonuri poate fi folosit și pentru imprimarea creditului client corespunzător unei cantități de lapte care nu a mai putut fi dozată ca urmare a terminării laptelui din rezervoare, dacă automatul nu este dotat cu acordare de rest. În acest caz se va elibera automat un bon în care se indică suma plătită în plus de client, acesta fiind în posesia bonului care prezentat ulterior fermierului va permite rambursarea sumei respective.

2. DATA ANALYSIS AND RESEARCH RESULTS

In order to conduct the commercial diagnosis at ABC SRL we used the indicators applicable to our diagnosis, namely: market power, analysis regarding customers, suppliers, as well as the evolution in sales, which are treated individually hereinafter.

a. **Market power analysis** represents the ability of the company to dominate the market, respectively to eliminate its competitors when the interests of the company are requiring it and is expressed through the net margin rate (rate of commercial profitability - Rcp).

Table no. 1
Calculation regarding market power analysis at ABC SRL

Indicator	2014	2015	2016
Net Profit (Pn)	5.724	3.716	1.795
Turnover (Tn)	1.603.980	1.740.053	1.959.612
Net margin rate (commercial profitability) (Rcm = Pn/ Tn x100)	0,35	0,21	0,09

(Source: Data processed according to accounting information obtained from ABC SRL)

Analyzing the market power of ABC SRL, based on the net margin rate indicator, it can be seen that it had a downward trend over the analyzed period, in 2014 being 0,35 and reaching 0,09 in 2016.

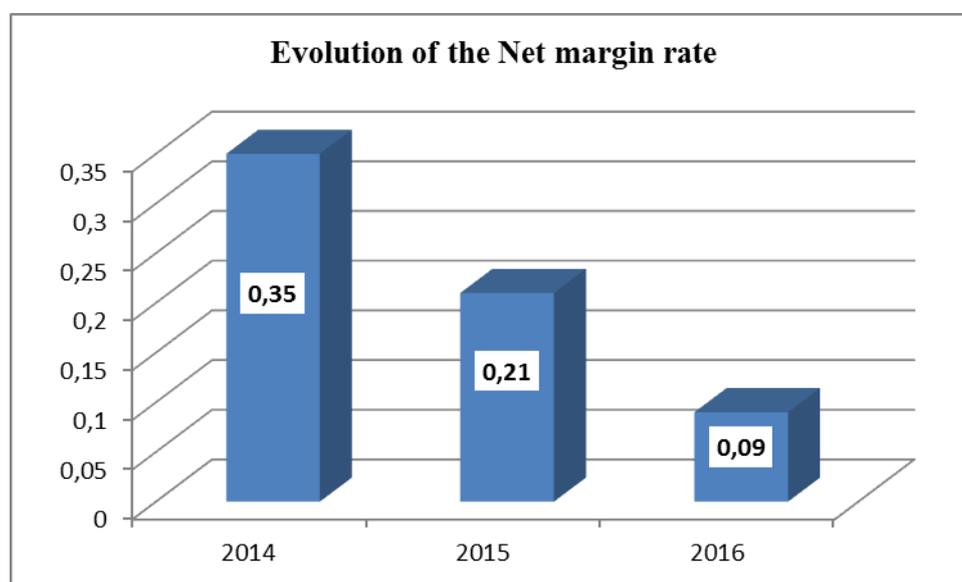


Figure no. 1. Evolution of the Net margin rate at ABC SRL during the period 2014-2016
(Source: Data processed according to accounting information obtained from ABC SRL)

Although the evolution of the net margin rate had a downward trend during the analyzed period, it can not be said that ABC SRL has a low market share, especially considering that the dependence is often reverse, meaning that a high market share can be sustained also by a low profitability rate.

b. Analysis of customers

Analyzing the customers of ABC SRL it can be affirmed that it has a large number of customers, of which there are a lot that have subscription, thus benefiting from fresh milk at the price of 2,9 lei/ liter. On the other hand, ABC SRL has a lot of loyal customers that do not want subscription, because they want to be able to get milk whenever they want and they get the fresh product at the price of 3 lei/ liter.

Another aspect that needs to be analyzed refers to outstandings and the duration for collecting receivables, which is calculated by using the indicator settlement period for receivables.

Table no. 2

Calculation regarding the settlement period for receivables at ABC SRL

Indicators	2014	2015	2016
Outstanding customers ((doubtful or involved in litigation) (Co)	36.901	45.620	45.620
Turnover (Tn)	1.603.980	1.740.053	1.959.612
Settlement period for receivables (Duration for collecting receivables) (Dcr = Co/ Tn x 360)	8,28	9,43	8,38

(Source: Data processed according to accounting information obtained from ABC SRL)

Cu toate că acest indicator este indicat să aibă valoare cât mai mică, se poate observa din Figura 3.5 că societatea ABC SRL înregistrează durate rezonabile de încasare, în 2014 8,28 zile, în anul 2015 a fost înregistrată o creștere, durata de încasare ajungând la 9,43 zile, dar în anul 2016 situația s-a redresat, având un termen de decontare de 8,38 zile, societatea neavând clienți incerți, clienți rău platnici.

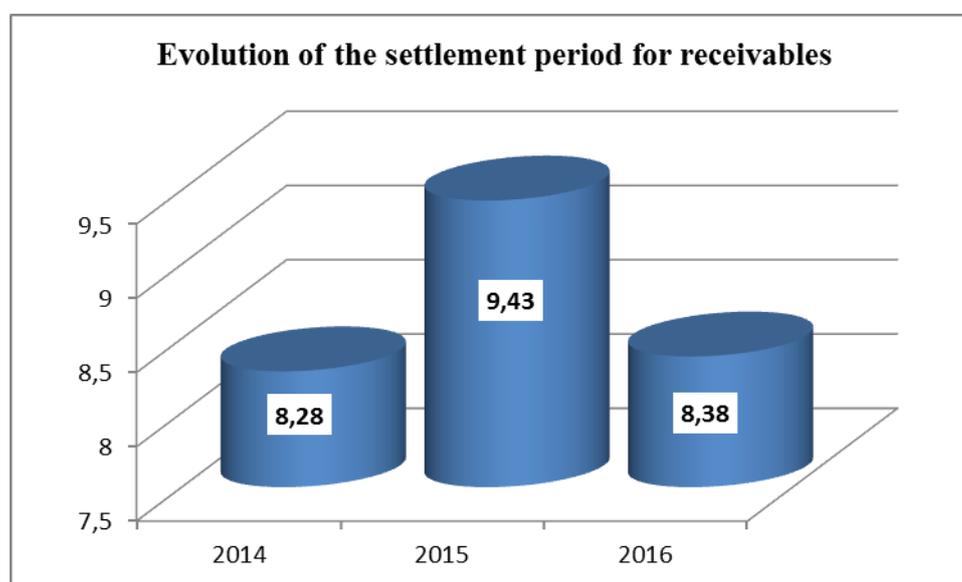


Figure no. 2. Evolution of the settlement period for receivables at ABC SRL during the period 2014-2016

(Source: Data processed according to accounting information obtained from ABC SRL)

It should be noted that ABC SRL company relies heavily on customers who prefer to go to the dispenser whenever they need to, since the milk purchase system is easy to use and customer friendly. For important customers, which encountered various financial problems, the company applies the term payment system.

c. Analysis of suppliers

In order to analyze the relationship with the suppliers at ABC SRL company, we took into consideration the suppliers account, as well as the turnover and balance registered by the company for the years 2014, 2015 and 2016. The indicator used was payment term of suppliers (Pts) expressed in days.

Table no. 3

Calculation regarding the payment term of suppliers at ABC SRL

Denumire indicatori	2014	2015	2016
Suppliers (Sp)	143.814	160.020	85.168
Turnover (Tn)	1.603.980	1.740.053	1.959.612
Payment term of suppliers (Pts = Sp/ Tn x 360)	32,27	33,10	15,64

(Source: Data processed according to accounting information obtained from ABC SRL)

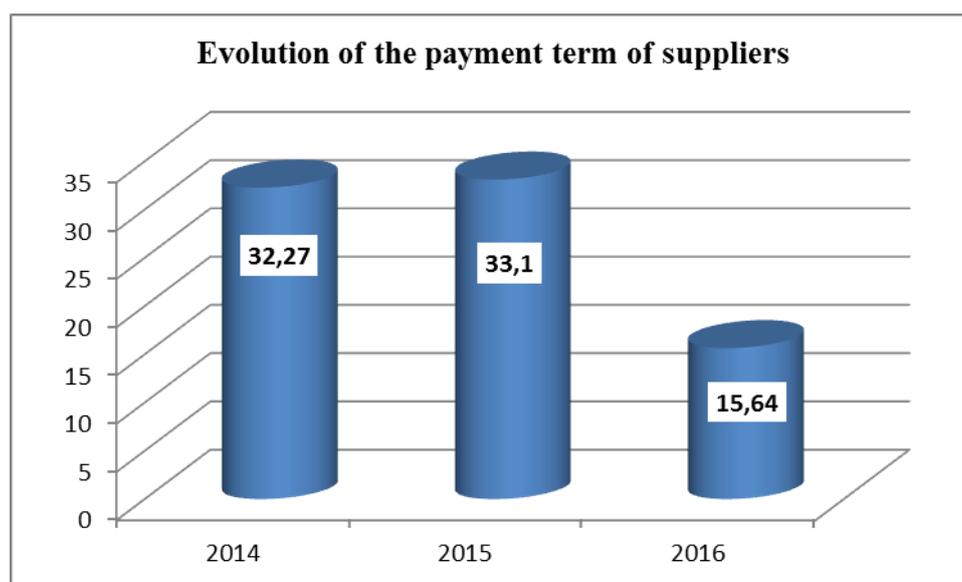


Figure no. 3. Analysis regarding the payment term of suppliers during 2014-2016
(Source: Data processed according to accounting information obtained from ABC SRL)

Analyzing Figure no. 3 it can be observed that the company has a good relationship with the suppliers, taking into account the payment terms offered by them. As it can be seen the payment term of suppliers has an oscillating evolution, starting in 2014 with a payment term of 32,27 days and reaching in 2016 a payment term of 15,64 days. This decrease is not a negative thing, because payment terms are agreed upon by both parties, given the expansion of the company and its high turnover, the average payment term is beneficial for its development.

d. Analysis of the evolution in sales

In order to have a clearer picture regarding the evolution in sales at ABC SRL Company we analyzed the production sold during the period 2014-2016, as presented in the following table:

Table no. 4

Analysis of the evolution in sales at ABC SRL

Indicator	2014	2015	2016
Production sold	1.603.980	1.740.053	1.945.405

(Source: Data processed according to accounting information obtained from ABC SRL)

If we analyze the evolution in sales based on the production sold, it can be seen that it has an ascending trend throughout the analyzed period. Thus, in 2014 the value of

the production sold by ABC SRL was 1.603.980 lei, increasing in 2015 by 8,48% and reaching 1.740.053 lei. The increase registered in 2016 was even higher, namely by 11,80%, with a value of 1.945.405 lei, compared to 2015, as it can be seen from Figure 4 presented below:

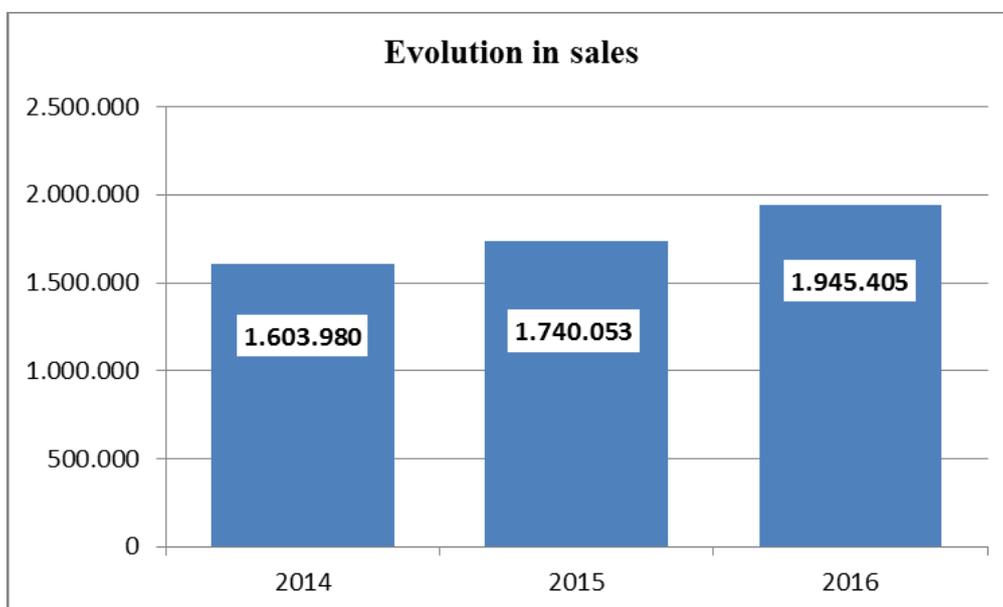


Figure no. 4. Analysis of the evolution in sales during 2014-2016

(Source: Data processed according to accounting information obtained from ABC SRL)

The increase of over 21% in 2016, compared with the first year of the analysis, 2014, is also due to the fact that the company increased the number of milk dispensers from year to year, thus keeping up with the growing demand from its increasing number of customers.

CONCLUSIONS

The commercial diagnosis of a company must provide a vision of that company in time and space, and this can be achieved by making a constantly reviewed global synthesis in the environment it operates. Basically, it is necessary to perform a dynamic analysis of the company and the environment it operates, as well as the interdependence relationship between them.

The customer relationship analysis should highlight the structure of the company's clients, types of customers and the share held by each of them in total revenue.

The analysis of the relationship with suppliers should highlight the criteria by which suppliers were selected (traditional relationships, price, quality, facilities), the structure of suppliers and dependence on supply quantity and value, as well as the quality of raw materials and warranty terms.

ABC SRL has a high volume of sales, a satisfactory return on sales, but it also encounters difficulties in achieving production in the projected parameters, due to high demand.

The difficulties encountered were multiple, the market for manufacturers of dispensers is rather immature and new, thus facing problems in providing service and

quality components for the equipments. The price paid for the dispensers acquired by ABC SRL was exceedingly high. After depleting the investment resources of its first customers, the dispenser provider turned to other farmers in the area, which caused them to buy identical milk dispensers.

Thereby, we can say that ABC SRL company manages to meet the requirements of the market, through an efficient marketing activity focused on customer loyalty and satisfaction, but also through good knowledge of the competition. Increasing effectiveness must also be accompanied, in a certain extent, by an increased efficiency.

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