

SYSTEM OF INDICATORS OF THE PROFITABILITY FOR COMPANIES OPERATING IN FOREIGN TRADE

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The scientific fundament of increasing foreign trade efficiency and its orientation towards obtaining maximum advantage requires first of all the specification of foreign trade efficiency and profitability content. In foreign trade, the profit of the foreign trade companies, as synthetic indicator, generally depends on the commission revenues and on the general expenses of the foreign trade company. In order to achieve a profit as large as possible, it is necessary to perform the factorial analysis of the commission revenues and the ways of increasing these revenues.

Keywords: profitability, foreign trade, revenue, goods.

The main issues to be presented when performing the profitability analysis of the foreign trade companies will be: the analysis of commission revenues and the profitability diagnostic - analysis of the foreign trade company;

The Analysis of the Commission Revenues

The export and import process requires the monetary expression of their value; more specifically it requires the price of the goods (exported or imported). Another component of the domestic discount price (for export) or the domestic capitalization (for import) is the company's commission. By their activity the companies generate certain revenues (gross revenues) which they use. To cover their expenses (expenses generated when buying goods and the company's general expenses); the amount up to the commission figure is represented by profit.

Taking into consideration that the total amount of commission revenues from export and import is the source of profit, it has to be thoroughly analyzed in order to discover the reserves that will increase the efficiency of the company's activity. Thus, the amount of the commission earned by the company as percentage shares is obtained for a certain quantity of goods sold (for export), or acquired (for import), as it follows:

$$\sum C = \sum C^e + \sum C^i \tag{1}$$

$$\sum C^e = \sum q^e \cdot p^e \cdot c^e \quad \text{for export} \tag{2}$$

Where: $\sum C^e$ -the commission amount for exported goods; q^e - the quantity of exported goods;

Analyzing the first formula (2) we notice that four factors influence directly the commission amount. These factors are: the volume of exported goods, the structure of exported goods, the complete domestic price for export, the commission share for export.

The change of commission amount for export is shown in the following equation:

$$\sum C^e = \sum q_1^{e'} \cdot p_1^{e'} \cdot c_1^{e'} - \sum q_0^{e'} \cdot p_0^{e'} \cdot c_0^{e'} \tag{3}$$

Applying the method of chain substitutions and taking into consideration statements (2) and (3), we can determine the influences of the factors mentioned above using the following formulas:

a) The influence of changing the physical volume of exported goods:

$$\Delta q^{e'} = \sum q_0^{e'} \cdot p_0^{e'} \cdot c_0^{e'} \cdot \left[\frac{\sum q_1^{e'} \cdot p_0^{e'}}{\sum q_0^{e'} \cdot p_0^{e'}} - 1 \right] = \sum q_0^{e'} \cdot p_0^{e'} \cdot c_0^{e'} \cdot \frac{\sum q_1^{e'} \cdot p_0^{e'}}{\sum q_0^{e'} \cdot p_0^{e'}} - \sum q_0^{e'} \cdot p_0^{e'} \cdot c_0^{e'} \tag{4}$$

b) The influence of changing the structure of goods from export:

$$\Delta s^{e'} = \sum q_1^{e'} \cdot p_0^{e'} \cdot i_0^{e'} - \sum q_0^{e'} \cdot p_0^{e'} \cdot c_0^{e'} \cdot \frac{\sum q_1^{e'} \cdot p_0^{e'}}{\sum q_0^{e'} \cdot p_0^{e'}} \quad (5)$$

c) The influence of changing the complete domestic price for export:

$$\Delta p^{e'} = \sum q_1^{e'} \cdot p_1^{e'} \cdot i_0^{e'} - \sum q_1^{e'} \cdot p_0^{e'} \cdot i_0^{e'} \quad (6)$$

d) The influence of changing the commission share per product for export:

$$\Delta i^{e'} = \sum q_1^{e'} \cdot p_1^{e'} \cdot i_1^{e'} - \sum q_1^{e'} \cdot p_1^{e'} \cdot i_0^{e'} \quad (7)$$

Changing the commission amount due to the increase of physical volume of exported goods is considered to be favorable. Changing the structure of the goods from export, in the favor of goods with a higher commission share or a lower commission share than the average share drawn by the foreign trade company, leads to the increase or the decrease of the company's commission amount.

Several types of reflex relationships can be noticed within the amount of financial results. Thus, in the relationship with domestic suppliers of goods for export, the discount is made at the actual price, less the commission of the foreign trade company. In case that the foreign trade company busy goods from domestic supplier on its own, the financial results of the company show the difference between the export price and the total costs of the exported goods, expressed in national or foreign currency. Consequently, the profit of the foreign trade company depends on the commission volume, on the gross revenues from direct transactions, on the circulating expenses of the foreign trade company and those which are directly covered from total financial expenses. In order to reach the highest profit volume, first of all we need to meet and exceed the export volume upon which the revenues depend, and on the other hand, to reduce the general expenses, as well as the other expenses of the company. Economic analysis serves this purpose. By its methods, the economic analysis contributes to mobilizing the reserves for increasing the profit.

The analysis of the profit obtaining process is based on several causal connection systems, in accordance with the purpose considered. A first causal connection system deals with the way that profit volume is determined with respect to revenues and expenses, as it follows:

$$P = \text{Revenues} - \text{Expenses} \quad (8)$$

By comparing the profit obtained with the forecasted profit or the profit for the previous time period, the following relationship results:

$$P = P_1 - P_0 = (R_1 - E_1) - (R_0 - E_0) \quad (9)$$

In this case, the modification in absolute value of the revenues obtained and of the company's expenses as compared to the previous volume or separately explains the deviation of obtained profit as compared to the based period. Taking into consideration that total revenues and total expenses consist of several elements, their contribution towards obtaining additional profit can be determined. This system of causal relationships is used in profit analysis, based on the company's revenues and expenses budget.

The analysis of the profit obtaining process using the revenues and expenses budget is based on the following relationship:

$$P = (ER + IR + OAR) - (CEG + CIG + OE + GE + Exp + OEL) \quad (10)$$

where: **P** - the company's profit; **ER** - export revenues, revenues from goods sold to export; **IR** - import revenues, revenues from domestic selling of imported goods; **OAR** - other activities revenues; **CEG** - cost of exported goods; **CIG** - cost of imported goods; **OE** - other expenses; **GE** - general expenses of the enterprise; **Exp** - expenses directly covered from financial results; **OEL** - other expenses and losses.

Taking into consideration that total revenues and total expenses consist of several components, we will analyze the contribution of each element to obtaining or exceeding forecasted profit. Considering that the various categories of results (profit or loss) result from the action of different factors, we should perform the factorial analysis for these factors.

The factorial analysis of the profit for foreign trade companies

The profit analysis for foreign trade companies can be performed based on the factorial causative connections systems. Thus, the factorial systems allow us to highlight various aspects of the relative modification of revenues and expenses for the foreign trade company as compared to the total volume of selling goods to export and import.

These systems allow the quantification of some specific factors' activity, which influence the profit of the foreign trade company, such as: the cashed-in amount, the average profit rate, the average commission rate, and the relative level of expenses and so on. Factorial systems of the first degree, second degree and so on result from the causal relationships system (11), as it follows:

$$\frac{I \cdot \bar{C} - I \cdot \bar{N}}{100} = \frac{I \cdot (\bar{C} - \bar{N})}{100} = (I \cdot \bar{r}) \cdot \frac{1}{100} \quad (11)$$

$$\text{So, } P = \left[(I \cdot \bar{r}) \cdot \frac{1}{100} \right] \quad (12)$$

Where: I - represents cash inflows from foreign trade operations; r - average profitability rate, considering 100 monetary units cashed-in amount.

From the second relationship (12), we can notice that profit is in direct relationship to both the total amount of inflows from foreign trade transactions and to the profitability rate. The modification of the profit obtained as compared to the base period or to the forecasted profit results from the second relationship (12):

$$\Delta P = P_1 - P_0 = \left[(I_1 \cdot \bar{r}_1) \cdot \frac{1}{100} \right] - \left[(I_0 \cdot \bar{r}_0) \cdot \frac{1}{100} \right] \quad (13)$$

Exceeding or not meeting the target profit can be explained based on the following factors:

a) The modification of cashed-in amount:

$$\Delta I = \left[(I_1 \cdot \bar{r}_0) \cdot \frac{1}{100} \right] - \left[(I_0 \cdot \bar{r}_0) \cdot \frac{1}{100} \right] \quad (14)$$

b) Increasing the profitability rate:

$$\Delta \bar{r} = \left[(I_1 \cdot \bar{r}_1) \cdot \frac{1}{100} \right] - \left[(I_1 \cdot \bar{r}_0) \cdot \frac{1}{100} \right] \quad (15)$$

In order to show the contribution of the relative modification of revenues and expenses as compared to the total inflows volume, a more analytical causal system is being used:

$$P = \left[(I \cdot \bar{C} - I \cdot \bar{N}) \cdot \frac{1}{100} \right] \quad (16)$$

Where: \bar{C} - the average share of revenues from selling goods with commission and with foreign exchange contribution; \bar{N} - the relative level of the distribution expenses.

Within the causative relationships system (16) we consider that the company's revenues and expenses are in direct ratio with the cashed-in amount, which means that their total amount varies according to the total inflows volume from export and import goods. Using the third relationship (16), the profit analysis is the following:

$$\Delta P = P_1 - P_0 = \left[I_1 \cdot (\bar{C}_1 - \bar{N}_1) \cdot \frac{1}{100} \right] - \left[I_0 \cdot (\bar{C}_0 - \bar{N}_0) \cdot \frac{1}{100} \right] \quad (17)$$

Out of which the following relationships are based a changing:

a) The cashed-in amount:

$$\Delta I = \left[I_1 \cdot (\bar{C}_0 - \bar{N}_0) \cdot \frac{1}{100} \right] - \left[I_0 \cdot (\bar{C}_0 - \bar{N}_0) \cdot \frac{1}{100} \right] \quad (18)$$

Or, taking into consideration that $\bar{C} - \bar{N} = \bar{r}$, the result is:

$$\Delta I = \left[(I_1 \cdot \bar{r}_0) \cdot \frac{1}{100} \right] - \left[(I_0 \cdot \bar{r}_0) \cdot \frac{1}{100} \right] \quad (19)$$

b) The average gross revenue share:

$$\Delta \bar{C} = \left[I_1 \cdot (\bar{C}_1 - \bar{N}_0) \cdot \frac{1}{100} \right] - \left[I_1 \cdot (\bar{C}_0 - \bar{N}_0) \cdot \frac{1}{100} \right] \quad (20)$$

After simplifying these results we have the following equation:

$$\Delta \bar{C} = \left[I_1 \cdot \bar{C}_1 \cdot \frac{1}{100} \right] - \left[I_1 \cdot \bar{C}_0 \cdot \frac{1}{100} \right] \quad (21)$$

Taking into consideration the components of the average revenue share (\bar{C}), which are the average commission share cashed and the average share of revenues from foreign currency contribution, meaning: $\bar{C} = \bar{c} + \bar{V}$, we can determine the contribution of each component to changing the profit amount as compared to the objective followed. In this case, the equation (21) changes as it follows:

$$\Delta \bar{C} = \left[I_1 \cdot (\bar{c}_1 + \bar{V}_1) \cdot \frac{1}{100} \right] - \left[I_1 \cdot (\bar{c}_0 + \bar{V}_0) \cdot \frac{1}{100} \right] \quad (22)$$

The influence of changing the average commission share from export – import transaction over the profit, provided that we maintain the previous level of the expenses, can be determined as it follows:

$$\Delta \bar{C} = \left[I_1 \cdot (\bar{c}_1 + \bar{V}_0) \cdot \frac{1}{100} \right] - \left[I_1 \cdot (\bar{c}_0 + \bar{V}_0) \cdot \frac{1}{100} \right] \quad (23)$$

$$\Delta \bar{C} = \left[(I_1 \cdot \bar{c}_1) \cdot \frac{1}{100} \right] - \left[(I_1 \cdot \bar{c}_0) \cdot \frac{1}{100} \right] \quad (24)$$

The commission amount from export transactions can be higher or lower than the amount which is conditioned by the actual cashed-in volume and by the commission share previously obtained, and it can influence positively or negatively the gross revenues and implicitly the profit. The influence of changing the average revenue share from transactions generating foreign currency over profit is determined as it follows:

$$\Delta \bar{V} = \left[I_1 \cdot (\bar{c}_1 + \bar{V}_1) \cdot \frac{1}{100} \right] - \left[I_1 \cdot (\bar{c}_1 + \bar{V}_0) \cdot \frac{1}{100} \right] \quad (25)$$

Changing gross revenues from transactions generating foreign currency as compared to the revenues conditioned by the total actual cashed in amount and by the average share of gross revenue previously obtained directly influence profitability and determined the profit modification for the base period.

The third factor which influences profit is on change of expenses according to the cashed – in amount modification. Thus the relative level of expenses changing and so it influences the profit. The relative average level of total expenses (\bar{N}) comprises both the company's relative level of general expenses ($\bar{N}g$), as well as the relative level of expenses directly covered by the financial results ($\bar{N}d$), which leads to the following equation: $\bar{N} = \bar{N}g + \bar{N}d$.

The influence of the relative modification of the company's general expenses, as compared to the cashed-in amount volume, over the profit is reflected by the following equation:

$$\Delta \bar{N}g = \left[I_1 \cdot (\bar{C}_1 - \bar{N}g_1) \cdot \frac{1}{100} \right] - \left[I_1 \cdot (\bar{C}_1 - \bar{N}g_0) \cdot \frac{1}{100} \right] \quad (26)$$

After simplifying the equation above, the following equation results:

$$\Delta \bar{N}g = - \left[(I_1 \cdot \bar{N}g_1) \cdot \frac{1}{100} \right] - \left[(I_1 \cdot \bar{N}g_0) \cdot \frac{1}{100} \right] \quad (27)$$

The expenses directly covered by the financial results also influence the company's profit. These expenses are not related with selling export and import goods. Due to this fact, their influence over the profit derives from the difference between the actual amount of money spent and the amount of money previously obtained, as it follows:

$$\Delta CH_d = -(CH_{d1} - CH_{d0}) \quad (28)$$

As for the commission shares attributable to the foreign trade company, these will be established differently, by negotiations, for the export and import activities. The reduction of the commission share is explained by the changes occurred within the structure of the export - import transactions, as compared to the total volume of these transactions.

The increase and diversification of the transactions generating foreign currency is an important component for increasing profit. The company's management needs to pay attention to the component mentioned above in order

to obtain a larger profit volume. Exceeding the previous level of the company's general expenses influences the profit negatively. The influence of this factor shows the increase of the total amount of the company's general expenses, with a higher rate than the cashed-in amount from the foreign trade activity. This situation can be partially justified by increasing the foreign trade activity. However the company's management will have to consider the set of measures needed for reducing expenses, and based upon this approach to increase the efficiency of the foreign trade activity.

The savings obtained from the expenses covered from the financial results influence favorably the company's profit.

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