THE ANALYSIS OF THE QUALITY OF ADMINISTRATION OF COMPANY RELATIONS WITH COMMERCIAL PARTNERS

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The proper development of the activity of a company depends largely upon the way it administrates its relations with commercial partners (suppliers and clients), as they support the activity of exploitment, which is the main activity of the company. The quality of administration of these partnership relations is reflected by means of certain specific indicators and will influence the level of profit, liquidity and cash flow within the company.

Key words: clients, suppliers, negotiation power, partnership relations, receivables, debts, income, expenses, cashings, payments, indicators of activity, indicators of liquidity.

JEL classification: G33, G39, L14, M40

1. General aspects

In the paper „Competitive Strategy", M. Porter defines five forces (intensity of the rivalry from the sector of activity, new possible competitors, substitution products, suppliers and clients) which determine the profitability of the company. The five forces determine the profitability due to the „power" they provide to the company, suppliers, clients and competitors. This power is based on structural advantages such as the report of dimensions between purchaser and seller.[326] It is obvious the fact that within a certain branch of activity and within economy on the whole, each company holds both the status of client (purchaser), and of seller (supplier) for a different company. Therefore, the relations resulted from sale-purchase operations must be taken carefully into account, which is, after all, the purpose of the present paper. According to the anglo–saxon perspective, relations between seller and purchaser are regarded as adversity relations, namely if a purchaser (client) is stronger as compared to the seller (supplier), he will impose the seller a transaction to his own advantage, and the other way around. These relations of adversity can be „translated" through ***the power of negotiation of clients and suppliers***[327].

The power of negotiation of suppliers regarding companies from a given industry can manifest through majoring of prices or reduction of quality of products provided. Its power increases if the resource is important for the beneficiary company, if the number of suppliers is reduced from one reason or another (monopoly, low profits etc.), if change of the supplier brings forth important transference costs or if there runs the risk for the supplier to purchase the business of its beneficiary (client).

The power of negotiation of clients is bigger if they purchase a product in greater quantities, if the respective product is standardized and costs involved through change of supplier are small, or if they represent significant extent within the cost of the own product. Other reasons might be: low profit in case of the purchaser, which makes him offer low prices, the relative lack of importance for the product of the purchaser, the reference product or lack of serious impact upon

326 Coates Charles, "Managerul total [Total Manager]", Teora Publishing, Bucharest, 1999, page 19.
327 Băcanu Bogdan, "Management strategic [Strategic Management]", Teora Publishing, Bucharest, 1999, page 47.

the financial state of the client, the threat of purchasing the supplier's business increase the power of the client in what regards certain relations, when we speak of an industrial type consumer. Luxury products influence the clients' power of negotiation, when their income is low and prices of products are big, since they are sensible to price variations.
The factors influencing the relations of the company with commercial partners can be viewed numerically (quantitatively) by means of the Financial Statement of the company. These situations provide necessary information for the calculation of specific indicators of quantitative description, but they offer as well, by analysis and interpretation in correlation, qualitative information regarding the qualitative level of administration of relations with commercial partners. From a financial point of view, both clients and suppliers of the company represent ***commercial credits***. The fluxes of operations generated by relations with commercial partners as they appear in Financial Statement, can be figured in the following scheme:

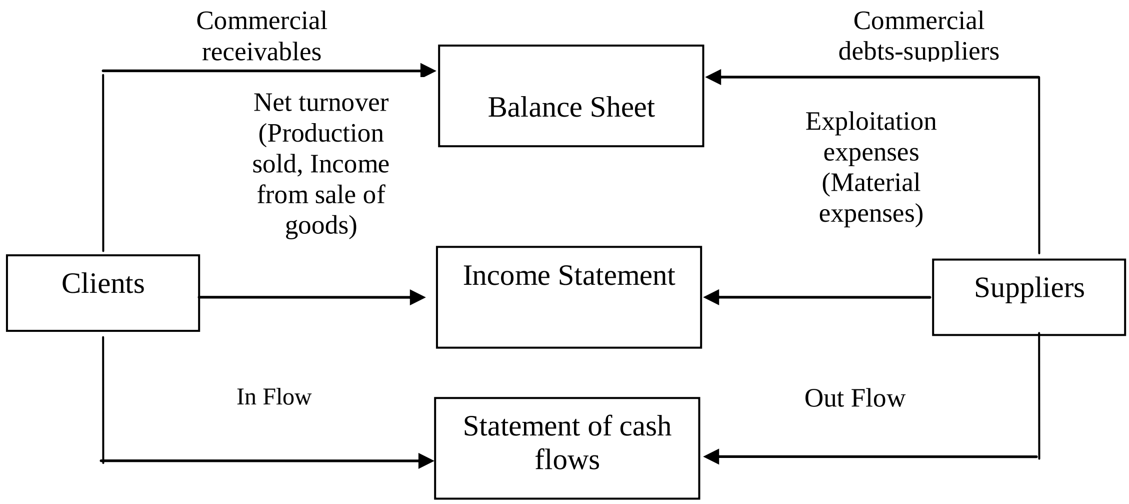

Fig. 1. Fluxes of operations with commercial partners reflected in Financial Statement

Clients represent, in financial terms, company receivables (Accounts Receivable or „Commercial receivables" of the company, as they appear reflected in the Balance Sheet) resulting from provision of goods and/or carrying off services and which have a certain falling due of return. The factors influencing, from a financial point of view, partnership relations with clients, are: the net turnover; the contract stipulations regarding return terms; the sales structure; the quality of products/services sold/carried off.
In general, the increase of net turnover determines an increase of the volume of commercial receivables, which in the mean and long run could create problems of financial liquidity when bills issued are not returned in due time. In case commercial receivables are not returned in due time and there runs the risk of not recovering sums immobilized at clients, this situation has unfavourable consequences upon the financial liquidity of the company.
If sales structure changes in favour of some products of bigger/smaller value, then the receivables balance increases/reduces. In case that sales structure changes in favour of products of bigger value (more expensive, lux products) commercial margins are expected to be higher, however the attention of the company should especially focus the qualitative level of these products, because the client will accept to pay more and take up bills on term if he is served at time set, with the quantity requested and the qualitative level expected. In this situation (which also holds for lux products) hauling times will be smaller and commercial margins obtained, bigger. If sales structure changes in favour of products of smaller value, this fact could be a consequence not necessarily of decrease of qualitative level of products (only in case of losing an important and

pretentious client), but especially of diminution of purchase power of clients. Commercial margins would normally be smaller, but the company will be able to attenuate this problem by hauling times of sales in bigger quantities (if possible).

In case of products/services of inferior quality, or with hidden flaws, there might arise problems in returning receivables, caused by remedy of flaws, reduction of prices imposed by clients or by what might be even worse, the worsening of the company image (especially if these flaws have been discovered before delivering the product). In the case of products/services of superior quality the company will have a bigger power of negotiation with clients, with more reduced return terms, a fact which is likely to influence favourably in financial liquidity.

Company **suppliers** (Account Payable or „Commercial debts – suppliers", as they appear reflected in the Balance Sheet) represent, from the financial point of view, money resources temporarily attracted from third parties. They are not usually associated with interest rates and ensure supplementary financing for the company. These debts are however free sources of capital, which means that, in essence, it's benefic for the company to record a bigger volume of shifts of payments than in the case of shifts of returns. On the other hand, if the company has an important (probably even unique) supplier of raw materials, payment bills must be honoured in due time, because losing that supplier could lead to temporary or even total breach of activity of the company, or its orientation towards other suppliers providing raw materials, in the best case at the same qualitative level, but probably at much higher prices. The company suppliers also generate provision costs (material expenses) which are particularly significant through the percentage they hold (50-80%)[328] from the total cost and through possibilities of reduction that could appear in case of efficient provisioning.

2. The calculus, analysis and interpretation of specific indicators which reflect the quality of administration of the relations with commercial partners (indicators of activity, indicators of liquidity)

The way these commercial credits (clients and suppliers) are administrated determines the short term financial balance of the company, reflected through its financial liquidity. Within Financial situations, in the Explanatory note no. 9 „Examples of calculation and analysis of the main economical-financial indicators"329, we point out indicators (indicators of activity or administration and indicators of liquidity) that reflect the way in which these resources are administrated330. The indicators of velocity of accounts receivable and accounts payable belong to the group of indicators of activity (of administration), and their calculation and interpretation offer information regarding the administration of these resources, with influences upon the financial liquidity of the company. The table no.1 presents the modality of calculation of these indicators at the level of a company, over a period of 4 years:

Table no.1

INDICATORS	2005	2006	2007	2008
INDICATORS OF ACTIVITY (OF ADMINISTRATION)				
Commercial receivables (CR-com) (from the Balance Sheet rd. 25) -lei-	5.950.399	7.076.058	8.835.548	11.797.050
Net turnover (CAN) (from the Income Statement rd.1) -lei-	52.315.685	59.421.267	64.629.433	73.659.502

328 Cârstea, Gheorghe (coord.), "Analiza strategică a mediului concurenţial [Strategic analysis of the concurential environment]", Economic Publishing, Bucharest, 2002, page 37.

329 * * * O.M.F.P. no. 1752/17.11.2005 2005 privind aprobarea reglementărilor contabile conforme cu directivele europene [regarding the approval of accounting regulations in accordance with European directives], in the Official Monitor of Romania Part I, no. 1080 / 30.11.2005.

330 Bernstein Leopold, Wild John, "Analysis of Financial Statements" Fifth edition, McGraw-Hill, New York, 2000, page 130.

Income from exploitation (V_{Expl}) (from the Income Statement rd. 10) -lei-	52.565.835	60.483.046	67.900.801	76.258.486
Cashing of receivables (Variation of receivables) (from the Statement of Cash Flows IAS 7) -lei-	3.343.065	1.125.659	1.759.490	2.961.502
COMMERCIAL-RECEIVABLES VELOCITY				
- commercial-receivables turnover $K_{CR\text{-}com}$ = CAN/CR com (number of rotations)	**8,79**	**8,39**	**7,31**	**6,24**
- commercial-receivables collection period Dz $_{CR\text{-}com}$=(CR com/CAN)*T (T = 365 days) (days)	**42**	**43**	**50**	**59**
Account payable (Commercial debts– suppliers) (Fz)(from the Balance Sheet rd. 40) -lei-	5.443.974	4.691.610	8.118.695	9.210.297
Material expenses-total (from the Income Statement rd.11 + rd. 12 + rd.13) -lei-	19.126.686	20.874.929	21.233.708	21.234.385
Exploitation expenses (from the Income Statement rd. 32) -lei -	47.133.713	54.931.626	59.523.579	66.137.243
Payments suppliers (Variation of suppliers) (from the Statement of Cash Flows IAS 7) -lei -	2.612.052	- 752.364	3.427.085	1.091.602
ACCOUNT PAYABLE (COMMERCIAL DEBTS –SUPPLIES) VELOCITY				
- accounts payable (commercial debt-supplies) turnover K $_{Fz}$=CAN/Fz (no. of rotations)	**9,61**	**12,67**	**7,96**	**8,00**
- accounts payable (commercial debt-supplies payment) payment period $D_{Z\ Fz}$=(Fz/CAN)*T (T = 365 days) (days)	**38**	**29**	**46**	**46**
INDICATORS OF LIQUIDITY				
Current assets (from the Balance Sheet rd. 35 + rd. 36) -lei-	17.506.275	20.327.105	24.782.018	25.970.958
Current liabilities (from the Balance Sheet rd. 45 + rd. 62) -lei-	10.438.946	9.834.751	13.361.839	15.477.089
Inventories (S) (from the Balance Sheet rd. 24) -lei-	9.144.969	9.878.097	12.118.820	11.947.514
Short term investments (Cash equivalents) (from the Balance Sheet rd. 33) -lei-	63.006	67.655	2.469	10.407
Cash and bank accounts (from the Balance Sheet rd.34) -lei-	1.101.530	1.411.218	1.987.644	1.815.897
Treasury (TR = Short term investments + Cash and bank accounts) -lei-	1.164.536	1.478.873	1.990.113	1.826.304
CURRENT (GENERAL) RATIO R_{LG} =(AC^*/DTS^*)*100 (according to the Explanatory note no. 9). $R_{LG} \in$ [120% - 200% →250%]	**167,70%**	**206,67%**	**185,47%**	**167,80%**
QUICK RATIO (ACID RATIO) R_{LI} =[(AC^* - S)/DTS^*]*100 (according to Explanatory note no. 9) $R_{LI} \in$ [50% 100% →150%]	**80,09%**	**106,25%**	**94,77%**	**90,61%**
CASH RATIO R_{LE} = (TR/DTS^*)*100 $R_{LE} \in$ [40-60%]	**11,16%**	**15,04%**	**14,89%**	**11,80%**

Source: the Balance Sheet, the Income Statement and the Statement of Cash Flow from a company (real statement)
Note: the lines from the Balance Sheet and the Income Statement whence the data for the calculation of indicators were taken, respect the form of the two Financial Statement, cf. O.M.F.P. 1752/17.11.2005

We further proceed to analyzing and interpreting indicators calculated in table no.1, in order to grasp some conclusions concerning the modality of management of relations with commercial partners. In what regards the indicators of activity, they can be expressed by means of velocity. In general, **velocity** can be calculated in two ways: as **turnover** (showing how many times the respective element – commercial receivables or commercial debts - suppliers, in the given case – can be recovered through a financial exercise, regularly over one year) and as **collection/payment period** (showing the number of days in which the respective element –

commercial receivables or commercial debts, in the given case – is recovered, or in how many days is a rotation being made).Velocity can accelerate or slow down from one period to another. The interpretation of results obtained after calculations made in table no.1 reveals the following:
The commercial-receivables velocity slows down from one year to another. If in the first two years the value of receivables was collected in a mean of 42 days, in the next two years the difference between returns grows to 50, respectively 59 days, which is likely to produce unfavourable effects upon liquidities (we can also observe the turnover decreases). The measure of this indicator is influenced by[331]: *the strategy of the supplying company*; *relations established with clients*; *the specific of the production*; *the economic conjuncture*; *the diminution of clients' purchase power in situations of crisis; the crediting policy practised on the market*; *the level of inflation*.
The commercial debts – suppliers velocity grows in the first two years, while the payment period reduces from 38 to 29 days and slows down in the following year (with 20 days), maintaining itself constant in the last year (46 days).
Separate analysis of the two velocity is not enough. Even if one can observe from the very beginning a situation unfavourable for the company, this even becomes twice unsatisfactory if one analyzes the two indicators in correlation. We can thus observe the fact that differences of returns from clients and suppliers are unfavourable to the company all over the given time. If in the first two years commercial receivables were collection meanly at 42-43 days, debts to suppliers were paid at 38 days on average and then at 29 days (deviation in favour of suppliers, year in which one can observe from table no.1 that the sale of commercial receivables reduces from 3.343.065 lei in 2005 to 1.125.659 lei in 2006, but payments to suppliers grow faster, the sale of suppliers in 2006 as compared to 2005 being smaller by 752.364 lei). In the following two years the payment period to suppliers grows (from 46 to 29 days on average), getting closer to the commercial-receivables collection period, however the deviation is unfavourable in this situation as well (while the period of payment to suppliers remains constantly to 46 days, the collection period of commercial-receivables grows to 50 days from 43 days, and respectively to 59 days in the last year). This fact is also obvious in the Statement of Cash Flows through the growth of commercial-receivables remaining to be returned (to approximately 2-2,5 million lei), but also of sale of suppliers (to approximately 3,5 million lei in 2007, but increase to approximately 1 million in 2008).
We can conclude the fact that both collection and payment period are normal (one month, one month and a half) considering that many companies face financial blockings, thus farther return/payment terms. However, these unfavourable deviations influence the **liquidity of the company**, which reflects in liquidity ratio, especially the Cash ratio.
Current (general) ratio (R_{LG}) reflects the capacity of current assets to transform into cash which could cover for the falling due current liabilities of the company. The optimum for the current (general) ratio (R_{LG}) is placed around the value of 200% (acc. to O.M.F.P. no. 1752/17.11.2005). In what concerns the company in study, the current ratio can be considered to fall within the safety interval all over the given period (around the value of 200% with small fluctuations according to the change of value volume of current assets and current liabilities), namely the company holds enough inventories values, receivables and treasury to face the payment of current liabilities (the greatest proportion of which belongs to suppliers).
Quick/Acid Test Ratio (R_{LI}) points out the capacity of current assets, other than inventories (S) to participate in financing short term debts of the company. In fact, this ratio shows the capacity of the company to cover short term debts from sums immobilized at clients (commercial receivables), disposals and the amount of cash it disposes (treasury). The safety interval for the

331 Buglea Alexandru, „Analiza situaţiei financiare a întreprinderii [The analysis of the financial situation of the company]", Mirton Publishing, Timişoara, 2004, page 126.

Quick/Acid Test Ratio (R_{LI}) is [50%-100%; max.→150%]. Over fulfilment of the optimum level might represent inefficient administration either of receivables (difficulties regarding their cashing), or of monetary resources (lack of an efficient disposals policy). On analyzing the values of this ratio all over the given period we can observe the company places within the safety interval, namely it possesses enough values to fulfil in the short run (receivables) and treasury to cover current liabilities. By comparing the values of this ratio with the Quick/Acid Test Ratio we can see it halves every year, which enables us assert the fact that the company holds great inventories values.
Although the analysis of the two rates allows us to conclude the respective company has a favourable situation (as ratios fall within safety intervals), the study of the ***Cash ratio (R_{LE})***, proves the company does not in fact holds enough monetary resources to face falling due current liabilities. This ratio actually points out the capacity of payment of the company, which is on average approximately 13% all over the interval analyzed. The precarious value of the ratio is caused by the unfavourable deviation between the commercial-receivables turnover and commercial debts-suppliers turnover, as the ratio represents the „barometer" of the state of liquidity, whose calculation only takes into account treasury (Short term investments or Cash equivalents + Cash and bank accounts).
The optimum value of this ratio is comprised within [40% - 60%]. If we take into account in the calculation of the ratio only the Cash and Bank Accounts without Short term investments (stocks held, bought, issued or rebought bonds and other values) which are anyway insignificant at the level of the company analyzed, the optimum value is included in the interval [20% - 30%]. A low level of this ratio can ensure maintaining of the financial equilibrium if the company holds inventories, receivables or short term investments easy to transform in liquidities, in accordance with the maturity of short term debts. The analysis of the cash ratio (especially the second rate, that based only on cash) must be undertaken under reserves[332] because: cash change significantly over short periods of time, as a result of the report between returns and payments; substantial returns from a certain period do not necessarily represent a sign of financial disequilibrium, but can be caused by slow returns in the right preceding period; the relatively low level can be seen not only as signal of difficulties met in recovering receivables, but also as a policy of strict management of cash.
In practical activity, optimum levels of indicators of liquidity can be considered facultative and thus can be changed accordingly if one takes into account other factors also such as [333]: concrete conditions of development of the activity of exploitation of every company; ability to negotiate with clients and suppliers; efficient use of material resources by obtaining of their velocity (regarding turnover) bigger than the mean level of the branch. Indicators of liquidity characterize the quality of economic-financial activity which diminishes when money means are represented by elements of current assets with delayed or interrupted turnover (goods hard to sell, clients with late returns, degraded raw materials). In what concerns the numerical example, we can note the fact that the company „takes bigger concern" in paying its suppliers in due time and is „more flexible" regarding the collection period for the bills issued to clients. This situation can be „translated" by the fact that both suppliers and clients have a bigger power of negotiation with the company, on the one hand due to the fact that the latter has few (or one important) suppliers of basic raw materials, and on the other hand, competition from other companies determines the assignment of more relaxed collection period for clients. This fact is justified especially in situations of crisis when companies face diminution of demand and the loss of an important client and/or supplier can lead to bankruptcy.

332 Tabără N., Horomnea E., Toma C., „Analiza financiar-contabilă [The accounting-financial analysis]", Editura Tipografia Moldova, Iași, 2001, page 159.
333 Buglea Alexandru, op. cit., pag.178.

3. Conclusion

In conclusion, we can assert that in a world of competition, of sophisticated demand and of an economy affected by crisis, companies that fight to survive the crisis try to keep their clients by satisfying as good as possible their demands, since clients themselves are the very reason of existence of the company. However, as we have already shown, the company activates in a competitive environment and is, in its turn, client to other companies, thus waiting to be treated correctly by its suppliers. In this respect, what is important in the current economic and social context is trust together with setting right prices for products/services sold/bought, based on economic reasons (increase of the level of quality, diversification of the range of goods, post-sale service etc.).

Trust is founded on the truth of concrete situations and clarity of explanations; correctness and transparency of actions and of their consequences; involvement and concentration of different “actors”[334] (clients, suppliers, shareholders, owners, employees etc.). In addition to that, one has to move over the rivalry between purchasers and sellers. One can say today the ideal relation seller-purchaser is of partnership, contrary to the Anglo-Saxon perspective, which asserts that these relations are based on adversity. Many companies, especially Japanese ones, consider their suppliers partners in their operations and thus try hard to set and maintain a philosophy of cooperation – based on trust, respect and reciprocal advantage - to govern their relations.

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334 Purcărea Theodor, “Renaşterea şi promovarea consumatorilor - o permanentă sfidare [Rebirth and promotion of consumers - a permanent challenge]”, in “Management of quality and protection of consumers”, vol. 3, ASE, Bucharest, 1997, page 56.