CUSTOMER MANAGEMENT, CHOICE AND TRACKING OPTIONS TO ENSURE BUSINESS CONTINUITY

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ABSTRACT

The risk of unawareness of client issues or permanent non-monitoring of them is caused by unfavourable results, which may result in additional expenses, losses, and the impossibility of capitalizing on a favourable short term due to lack of resources. Because business credit allows sales to grow and, implicitly, profit, practice has shown us that if not properly managed it can create financial difficulties. In the study we have identified the benefits obtained by selecting, monitoring and controlling the activity of the clients by using computer modules capable of updating permanently information related to history, activities, financial situation.

Keywords: Monitoring, control, risk, development.

JEL classification: C58, D78, M41.

1. Introduction

1.1. The need for tracking and control

The need to ensure a more accurate monitoring of claims and debts stems derives from the need to manage labour capital as efficiently as possible. Any manager is interested in the real level of claims and debts, the concrete ways of accelerating the cashing, the legal ways of extinguishing in case of non-collection due to prescription (accounting and tax implications).

Commercial receivables originate from commercial credit to customers or commercial credit from suppliers of goods and services for commercial debt. There are many studies on the advantages and disadvantages of selling commercial credit (Pike et al., 2005; Long et al., 1993; Deloof et al., 1996; Petersen et al., 1997) the optimal level of commercial credit, which states that it should be between 20-30% (for large firms 20% and for small and medium firms 30%) (Jackling et al., 2004; Asselbergh, 1999), or they claim that internal policies and procedures can increase the company's performance by allowing for the efficient collection of claims and the provision of cash conversion (Carpenter et al., 1979, Peacock et al., 2003, Jackold et al., 2004, Arnold, all., 2007).

The credit (retention or expansion) decision belongs to management, which is a compromise between risk reduction and sales growth, with direct implications for the level and quality of accrued accounts (Robichek, 1965; Michalski, 2012). Commercial receivables being included in the financial statements under current assets are

considered to be treated in the light of portfolio theory to reduce the credit risk (Robichek, 1965; Friedland, 1966; Michalski, 2008). The link between receivables and debts with the liquidity and risk exposure of the firm is frequently approached, arguing that it should be continuously analysed and additional gains should also take into account possible losses on commercial loans (Freitas, 1973; Lewellen et al., 1972; Lewellen et al., 1973).

1.2. Economic and legislative context

In the current economic context of accounting, there have been a series of changes and adaptations due to globalization, which focused on harmonization with European Union legislation and practices and, on the other hand, with new accounting practices and policies that emerged the international context. Thus, the quality of the information has improved by introducing accounting regulations in line with the European Union Directives (IV and VII Directives) which have led to changes in the Accounting Law no. 82/1991, the adoption of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS).

These changes of a legislative nature also have an effect on the accounting of receivables and debts, in the way of reflecting the accounting information and subsequent transmission through the financial statements. In accordance with International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement", an enterprise's receivables are the assets that it creates by providing goods or services directly to a debtor other than those that were made or sold with immediate or timely payment short. Debts arise from transactions with natural or legal persons that involve a payment or consideration over a certain period of time. Through IAS 1, "Presentation of Financial Statements", we have established a liability differentiation and current debt liability when: it is expected to be paid in the normal course of the operating cycle, is held for trading - becoming exigible in within 12 months of the balance sheet date. Thus, according to this standard, other debts will be passed on to long-term debt.

In Romania, according to the Accounting Law no. 82/1991, we have accrual accounting in which entities have to record in their accounts all receivables and payables arising from an engagement, i.e. as a result of a legal or contractual provision, distinct by type of debt or debt. It is hereby stated that extinguishing a debt or debt and removing it from the accounting records may be made by collecting, clearing,

prescribing or cancelling, as well as by giving it to another creditor. If the receipt by mere manifestation causes a claim to be extinguished, there is also a situation in which we can settle a debt claim using a two-way "compensation". Compensation may occur if we have transactions between the same entities in which they are in the dual position of supplier and customer and which will reflect both a cashing and an out-of-pledge obligation. The emergence of compensation was a necessity that allowed economic agents to reduce the time and the financial circuit of the monetary equivalent of the concluded transactions, the financial lock-up and the losses in the economy. Compensation to the same entity can be made according to H.G. no. 685/1999, up to the lowest amount of the claim or debt. The third situation in which a claim is extinguished is the prescription which, according to the legal provisions, can be made after a 3-year term has expired in the case of commercial debts and debts (According to the Commercial Code Article 405, paragraph 1). For tax debts, the prescription period is 5 years from the date of 01.01. Of the year following the one in which the debt was incurred (Fiscal Procedure Code Article 130, paragraph (1)).

1.3. Impact of accounting principles on receivables and payables

The accounting principles applicable in Romania also cause incidents on debts and debts. Thus, the principle of continuity of activity implies the recording of receivables and debts at the nominal carrying amount. If it had the intention of liquidation then the receivables and liabilities should be valued on the balance sheet using a basis other than that of the nominal value resulting from the transaction (realized or settled).

The prudence principle involves provisioning by valuing assets and liabilities at fair value. In accordance with this principle, goodwill can be recognized as a revaluation or impairment recognized as a result of items or as equity. Fair value measurement is considered to be a more objective method against historical cost measurement and it has the following advantages: it provides information that takes into account market trends and cash flow forecasting methods, allows for real-valuation, taking into account factors endogenous and exogenous, not allowing over-valuation or under-valuation with direct impact on profit.

Through the principle of the independence of the exercise, it is necessary to distinguish separately the income and expenses that do not relate to the current exercise using the adjustments accounts of the type of income or expenses recorded in advance that will be receivables and debts of the current year compared to the following year.

The principle of non-compensation in the accounting does not restrict the compensation when settling a debt with a debt but only when it is recorded in the accounts, and this is required to be done in accordance with the function of the accounts.

The principle of separate valuation of asset and liability items requires their separate valuation, i.e. the probable amount of cash or consideration. The differences noted with minus between book value and inventory are recorded in the accounts through impairment adjustments accounts for impairment of receivables. For uncertainties that are subject to litigation, adjustments may be made for impairment. Also, according to these principles, we meet the obligation to keep accounting records both in lei and in foreign currency for receivables and debts arising from commercial transactions with business partners from other countries. They must be valued at least once a year when inventory is recorded when the exchange rate is favourable or unfavourable as a result of the appreciation or depreciation of the currency in which the transaction was made. Thus, this transaction will be initially recorded at the exchange rate of N.B.R. (the National Bank of Romania) from the transaction date, and then at the exchange rate of N.B.R. at the end of each financial year. From the above it results that the issue of the management of the creatures causes financial, accounting and fiscal implications.

The purpose of the research is to establish a way of managing the clients taking into account the repercussions generated by the non-payment or delayed collection of the clients' receivables. In this study a five-year client debt analysis was carried out by two methods: the ABC method and the "5C" method which allowed knowledge of each client's own characteristics and then their monitoring. An analysis was then carried out for three possible scenarios in order to know the consequences of changing client credit policies on client receivables and net marginal profit.

2. Materials and methods

The study consists of three parts: debt analysis, customer management and testing of 3 potential scenarios for marginal risk and marginal profit.

In the first stage, a claim analysis was carried out for a period of 5 years, using as a criterion the term of collection. Subsequently, a client management analysis was carried out using two methods: the ABC method and the 5C method in order to appreciate the existing situation within the company of the existing clients.

The state of the receivables was based on the information provided by the financial statements and the balance sheet at the end of the year, as presented in Table 1.

By using the ABC method, the existing clients were selected in three distinct groups: Group A - very important clients; Group B - major clients; Group C - Less important clients. By analysing the financial statement balances, a grouping of these clients was made on the groups mentioned using two criteria: by number of clients and by the value of the debtor turnover registered in the commercial receivables accounts. Thus, it has been established that the customers will have a level of acquisitions of up to 15% of the net profit registered in the previous year, in group B between 11-15% and in group C below 10%.

The 5C method involved identifying and monitoring customers with the following features: character, capacity, capital, collateral, and existing conditions. In order to evaluate each feature, a scale of 1-5 (1 = best and 5 = worst) was chosen.

Table 1. Situation of receivables

Receivables	Balance at 31.12.2013	Balance at 31.12.2014	Balance at 31.12.2015	Balance at 31.12.2016	Balance at 31.12.2017
Net trade receivables, of which:	**45.071**	**60.485**	**47.390**	**54.758**	**59.384**
- Internal clients, out of which:	42.300	58.600	45.900	52.200	56.500
< 30 days	32.453	48.936	45.653	50.679	51.679
> 30 days	9.491	7.726	1.365	0	4.561
> 60 days	1.253	0	0	0	1.605
> 90 days	0	2.678	0	2.866	0
> 120 days	1.874	1.145	372	1.213	1.539
- Clients are uncertain	1.874	1.145	145	1.213	1.539
- Other fixed debts	897	740	1.345	1.345	1.345

In order to analyse the "Character of the clients", it was established the probability that they have an opportunity to honour their commercial debt as a result of the commercial credit granted. The probability of paying off their debts was established considering that customers with a debt under 30 days (100%) have the highest probability of cashing, and the lowest probability of cashing is paid by customers with delays in paying over 120 days (5%). The collection balances were established according to the duration of non-payment of the existing debt balance at the end of 2017 and the following weights were used: 100%, 75%, 50%, 25%, 5%.

For the "Customer Capacity" feature, the analysis was made in the light of the financial statements presented by clients requesting commercial credit payment. It has gone from the bankruptcy risk assessment using the Z model proposed by Altman for private firms, the indicators used are shown in Table 2.

Table 2. Indicators of the Z model of the Altman method

Indicators	Formula
X1	The flexibility of the firm = Current assets / Total assets
X2	Rate of self-financing of total assets = Reinvested earnings / Total assets
X3	Rate of economic return = Profit before tax and interest / Total assets
X4	Share of capital in long-term debt = Subscribed and paid-up share capital / Long-term debt
X5	Share of turnover in total assets = Turnover / Total assets
Z	$0{,}717 \times X1 + 0{,}847 \times X2 + 3{,}107 \times X3 + 0{,}420 \times X4 + 0{,}998 \times X5$
Z> 2,9: safe area; -1,23 <Z <2,99: unreliable area; Z <1.23: the bankruptcy area	

In the reinvest profit category, the net result from which the dividends distributed and to be paid were deducted. In the

profit before tax and interest category, the gross result was added to which the interest expenses were added. Thus, we have established: A - the present financial performances are very good; B - financial performance is good, but this level is not maintained in all 5 years of study; C - performance is satisfactory and tends to worsen; D - financial performance is low and with a clear cycle at short intervals; E - financial performance shows losses and there are clear prospects that debts cannot be paid. The score range for each category was then assigned according to Table 3.

Table 3. Category delimitation according to the score

Score	A	B	C	D	E
Z	>3	2.7÷3	2.5÷2.7	1.23÷2.5	<1.23

Each customer was assigned a score according to the scale of importance, 1 for the best score, corresponding to the first category (A) and 5 for the lowest score, corresponding to the category E.

Analysing the reference to the "Client's capital" feature involved calculating the value of the fixed assets in the receivables from the client.

This was done by calculating a stake held by each client that was obtained by reporting the receivables to the net profit of the previous year (in the case of RON 450,000) registered by the firm granting the commercial credit.

Afterwards, a value was determined by each company according to the scale of importance used, giving the score as follows: (1) for the best client with a fixed asset value below 5%, (2) for fixed assets between 6-10%, (3) for fixed assets between 11-25%, (4) for immobilized resources between 26-50% and (5) for immobilized resources with a weight greater than 51%.

The "Customer's Collateral" feature was considered taking into account the possibilities of commercial credit guarantee. Thus, several guarantee possibilities (check, promissory note, bill of exchange, debt assignment contract, and mortgage or pledge contract, insurer seizure) were identified and scores were allocated according to the scale of established importance.

At the "Client's Conditions" according to the environment and the economic context in which it operates, it was considered that there are no significant differences between the clients surveyed, all of them being inside the country.

In order to know the changes that could occur as a result of the sales fluctuation, three possible scenarios were defined:

(A) sales are constantly maintained at the level of 2017, payment up to 30 days, (B) sales will increase 20% to pay for 60 days and (C) sales at 2017 but is granted a 1% discount for customers who will pay less than 30 days. In option C it was appreciated that the receipts will increase by 50% before maturity, that is, the clients will pay in advance.

To calculate additional sales (As) was used Eq. [1].

$$As = Es - Sm \quad (1)$$

Where: Es - expected sales, Sm - sales made last year. To calculate the marginal profitability (Rmg) Eq. [2].

$$Rmg = As \times 40\% \quad (2)$$

To estimate the customer balance (Cb) according to the chosen scenario, the following was used Eq. (3): $Cb = (Cr \times p + Cr) \times 365) \times 60/(30 \times 365)$ (3)

Where: Cr - claims made in the previous year, p - the weight given by the increase in receivables as a result of sales growth.

The increase in customer debt (ICD) is calculated by Eq. [4]:

$$ICD = Cb - Cbm \quad (4)$$

Where: Cbm - customer balance made in the previous year.

The opportunity cost (Oc) was calculated taking into account the short-term interest rate, which was estimated to be 15% per annum, Eq. [5]. This opportunity cost has been calculated only for variable expenses that have been estimated to be 60%, since it was considered that they only influence the chosen option, being calculated on the increase in the balance generated by the increase in customer receivables (ICD).

$$Oc = (ICD \times 60\%) \times 15\% \quad (5)$$

The risk of non-payment (Rnp) was calculated taking into account the turnover (T) (Eq. [6]) and the percentage associated with the default risk, Eq. [7]:

$$Rnp = (Sm + As) \times p^* \quad (6)$$

$$T = Sm + As \quad (7)$$

Where: p* - percentage associated with non-payment risk (p* = 60%).

The marginal risk (Rimg) is the additional risk that arose from the choices made. It was calculated using the formula Eq. (8), and the net marginal profit (Pnmg) is the result obtained by the difference between margins and marginal expenses, ie the marginal result after marginal opportunity and marginal risk, Eq. (9).

$$Rimg = Rnp - Rr \quad (8)$$

$$Pnmg = Rmg - Oc - Rimg \quad (9)$$

Where: Rr - the risk made in a previous situation taken as a reference.

3. Results and discussion

The distribution of the clients over the 5 years taken into account, according to the length of the registered age, is shown in Figure 1 (according to Table 1).
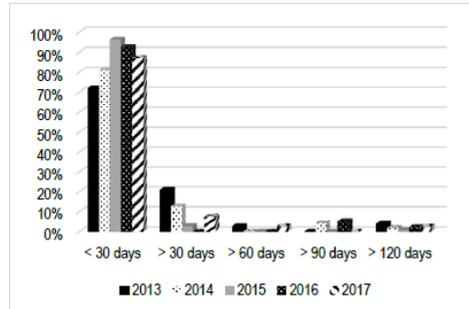

Figure 1. Distribution of clients

From the analysis of Figure 1 it can be noticed that the largest share belongs to the clients who have registered a non- incase period of up to 30 days. The highest level reached in 2015, it declined until 2017.
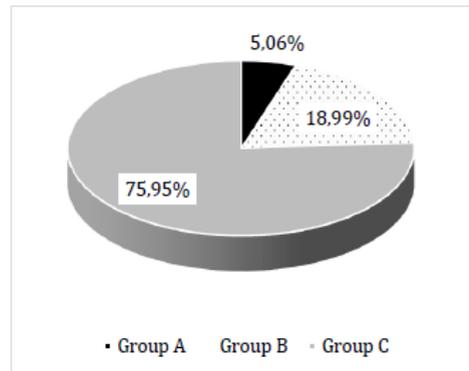

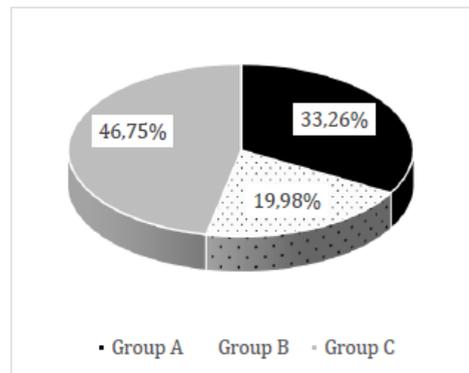*Figure 2. Distribution of receivables by quantity*

Figure 3. Distribution of receivables by value

Using the ABC method for 2017 data from the group of customer receivables in the three groups resulted in the distributions shown in Figures 2 and 3.

From the analysis of Figure 2 we find that in Group C we have the largest number of clients (60), followed by group B (15) and group A (4). If we also look at Figure 3 we find that group C again contains the highest value of receivables, followed by group A and then group B.

The "5C" method was developed for the data of the year 2017 and allowed to identify the clients' characteristics and how to evaluate them. Because the company has a portfolio of 79 companies that are in the category "customer receivables" for example, 5 companies were selected, and in order to respect their confidentiality they were marked with X, Y, Z, V, W.

Table 4 presents the analysis of "Customer Character" of the 5 clients surveyed.

Table 4. Analysis of the "Character" of the client

Duration of non-payment	The probability of honouring their debts				
	X	Y	Z	V	W
< 30 days	1			1	
> 30 days		2			
> 60 days					
> 90 days			3		
> 120 days					5

The analysis of Table 4 shows that the best probability is held by X and V clients.

Table 5 presents the bankruptcy risk situation for clients under study, according to Altman's Z model.

Table 5. Customer situation according to Z model indicators

Company name	Indicators					
	X1	X2	X3	X4	X5	**Z**
X	0,6	0,4	0,5	0,006	0,8	3,12
Y	0,4	0,5	0,5	0,0001	0,6	2,86
Z	0,7	0,4	0,45	0,0001	0,4	2,64
V	0,65	0,4	0,6	0,02	0,8	3,48
W	0,3	0,15	0,15	0,0001	0,3	1,11

According to the values obtained by the analysed companies we can say that the V (score: A) and X (score: B) firms have obtained the best values against the bankruptcy risk.

In Table 6 we have the result obtained by each client versus the analysis feature called "Customer Capacity".

From Table 6, it can be seen that clients A and V obtained the best result, according to the analysis of the financial statements.

Table 6. Analysis of "Customer Capacity"

Company name	Customer's ability to pay off their debts				
	A	B	C	D	E
X	1				
Y		2			
Z	3				
V	1				
W					4

In order to analyse the client's "Capital" characteristic it was necessary to calculate the fixed resources and the obtained result is presented in Table 7.

Table 7. Determining the level of fixed assets in receivables

Company name	Sales value on commercial credit	Share in total
X	76.725	17,05%
Y	32.154	7,15%
Z	15.235	3,39%
V	10.793	2,40%
W	4.236	0,94%

From the analysis of Table 7 we can see that company X holds the highest weight followed by company Y, Z, V and W. Table 8 finalizes the analysis of the "Capital of the client" by awarding scores according to the scale of importance.

Table 8. Analysis of the "Capital of the client"

Company name	Value of fixed assets in receivables from customers				
	A	B	C	D	E
X			3		
Y		2			
Z	1				
V	1				
W	1				

The analysis of Table 8 shows that the largest share of the value of the fixed assets in customer receivables (of the 5 clients taken into the study) holds the customer "C".

Table 9 presents the client's "Collateral" analysis through the client's collateral for non-payment of the debt at the due date.

From the analysis of Table 9, it can be noticed that the client "X" and "Y" register a large volume of sales that determined the warranty claim, providing the company with a mortgage contract and an insurance seizure (because the assets have already been mortgaged or pledges and other suppliers, the remaining amount but not exceeding the guarantee granted by commercial credit).

Table 9. Analysis of the "Client's Collateral"

Company name	Guarantees provided by the client for the payment of debts				
	A	B	C	D	E
X			3		
Y				4	
Z		2			
V		2			
W	1				

1 = Check, promissory note; bill; 2 = assignment contract for receivables (receivables > 10,000 RON); 3 = mortgage or pledge contract (Receivables > 15,000 RON); 4 = Insurer Seizure (Receivables > 15,000 RON).

Table 10 presents the last feature "Customer conditions" according to the environment and the economic context in which it operates.

Table 10. Analysis of the "Customer conditions"

Company name	The environment and the economic conjuncture in which the receivables collection operations take place				
	A	B	C	D	E
X		2			
Y		2			
Z		2			
V		2			
W		2			

Table 10 gave all firms the same rating because it was considered that all firms are active in the same economic environment within the country.

The existing information has been analysed according to the "5C" method and the recorded values for the established scale of importance are presented in Table 11.

Table 11. Synthesis of results using the "5C Method"

Features / Company name	X	Y	Z	V	W
Customer character	1	2	3	1	5
Customer capacity	1	2	3	1	4
Customer capital	3	2	1	1	1
Client collateral	4	4	2	2	1
Customer conditions	1	1	1	1	1
Total final score	10	11	10	6	12

According to the information provided in the "Material and Method" chapter, the lowest score obtained by the client shows the best position he / she holds compared to the other clients surveyed. In our case, company V is in the best position, with a lower risk compared to the other companies and therefore the possibility to use commercial credit acquisitions.

Table 12 lists selected scenarios and existing conditions.

Table 12. Additional sales and non-payment risk

Scenarios	Charge term	Turnover	Additional sales	Risk of non-payment	Scenarios
A	30	226.365,00	0,00	0,00%	A
B	60	271.638,00	45.273,00	2,00%	B
C	15	225.233,18	-1.131,83	0,00%	C

In order to observe the changes in net marginal profit and the associated risks, three possible scenarios were considered: (A) the situation where the sales remain at the level of the previous year, (B) the situation where the sales increase by 20% due to the increase of the lending period from 30 to 60 days and (C) the situation where sales have the same volume but a 1% discount is granted to accelerate the collection (assuming that 50% of customers will pay within 30 days).

An analysis of the proposed scenarios was made in Table 13.

Table 13. Scenario analysis

Scenarios	Additional sales	Margin profitability	Balance customers	Increase of customers' balance	Opportunity cost	Risk of non-payment	Marginal risk	Net marginal profit
A	0,00	0,00	51.679,00	0,00	0,00	0,00	0,00	0,00
B	45.273,00	18.109,20	121.467,20	69.788,20	6.280,94	3.259,66	3.259,66	8.568,61
C	-1.131,83	-452,73	13.954,01	-37.724,99	-3.395,25	0,00	0,00	2.942,52

In Table 13 of Scenario A, there are no further sales because the working hypothesis was to keep the activity at the same level as the situation in 2017 that can be retained in the next year as most of the receivables recorded during the 5 years present the balance at the end of the term collection period of less than 30 days. The result shows that in this situation we have no marginal profit.

In scenario B, the working hypothesis was to increase sales by at least 20% if more than 30 days (up to 60 days) were due at the maturity of the bills, and this resulted in additional sales rising. From the calculations we can see that although the sales will increase due to the relaxation of the payment terms, they will not end with positive marginal profits.

Scenario C assumes a 1% discount for customers who will make the payment less than 30 days over the set maturity. According to this scenario, even if the value of sales is

reduced due to that discount granted per total activity, the company will record a marginal positive profit, which is higher than the value of the discount granted.

4. Conclusions

Failure to collect debt claims is a problem for any entity and most often leads to financial difficulties due to the lack of liquidity. This may lead to delays in payment by chaining the failure to pay in due time the obligations assumed by third parties (employees, creditors, suppliers), the impossibility of resuming the activity which may end with the entry into insolvency and subsequent bankruptcy. Through the ABC method we noticed that in a company, clients can be divided into three distinct categories, allowing them to know through sales volume (with a beneficial action for loyalty) and their number (a beneficial action for the company strategy, to avoid possible imbalances by setting up additional product customization actions for important clients with a decisive role in the company's activity). Through the "5C" method, a customer's activity monitoring has been achieved, which is useful throughout the company's existence as it enables them to know and signal possible imbalances. The analysis of net marginal profit through commercial sales through three scenarios is useful because it has made it possible to identify the opportunity cost of non-payment risk and marginal risk. It is useful in managerial analysis because it makes it possible to quantify a possible decision-making by measuring the impact it might produce. In the existing situation, the C scenario is considered the best because of the calculations it shows the lowest risk and the highest marginal profit.

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