CHAPTER : VII

SUMMARY OF FINDINGS AND SUGGESTIONS

The present study is intended to analyse the receivables management in match industry of Sivakasi and to evaluate managerial performance in this regard. Twenty six sample units have been selected on the basis of proportionate stratified random sampling method for this purpose. The researcher has used both primary and secondary data in this study. Primary data are collected by administering interview schedules.

Credit sales is a marketing tool which helps to meet the competition and to attract the prospective customers to buy the products at favourable terms. The success or failure of a business depends primarily on the demand for its products as a rule the higher the sales, the greater the profits and the healthier the firm. Sales, in turn, depend on a number of factors such as price, quality, advertising and credit policy. Credit policy determines the decision regarding the extension of credit to customers. The need for credit sales is inevitable especially for those industries which face acute competition.
When a firm sells goods on credit, the firm is said to have granted trade credit. The credit sales transactions result in receivables or trade debtors. Receivables constitute a substantial portion of current assets. In an operating cycle of a firm, conversion of receivables into cash is a prominent function among all other functions involved. Because, it involves risk. Effective receivables management becomes essential to both large scale and small scale industries. The basic objective of receivables management is to maximise sales and minimise the cost of credit.

It has been observed in this study that the match units of Sivakasi sell their 75 to 90 per cent of their production on credit basis. So, a proper management of receivables is to be evolved in match industry. The present study highlights the credit policy, collection policy and procedures for evaluation of customers of match units of Sivakasi.

SUMMARY OF FINDINGS

The present study has given due importance to the various aspects of receivables management in the match industry. The emergence and growth of match industry in India and in Sivakasi have been brought out in the second chapter.
Match industry in India is a century old. The production of matches in our country started only in the year 1894, in Bilaspur and Ahmedabad. Till then the entire demand of the country was met by imports from Sweden. The imposition of various government restrictions paved the way for indigenous production of matches in India. The present production capacity of match industry is estimated at 78,000 million boxes, a year.

During the earlier periods of this century, match factories sprung in many parts of the country and especially in Sivakasi, because of the efforts taken by two young entrepreneurs namely, Sri P. Ayyanadar and Sri K.A.K.A. Shanmugarasan. Their enthusiasm and entrepreneurship skill contributed the growth of match industry in Sivakasi. Semi-tropical climate, development of other ancillary industries, financial assistance of commercial banks, market potential and the governmental support are the main reasons for the rapid growth of match industry in Sivakasi.

Tamil Nadu accounts for 66.10 per cent of the total match units in India. There are nearly about 5,000 match units are functioning in Tamil Nadu. They produce
hand-made matches. They provide direct employment to 5,00,000 people of Tamil Nadu. The match units are mainly concentrated in the districts such as Kamarajar, Nellai Kattabomman, Chidambaranar and Kanyakumari. But, match factories in Sivakasi have been contributing a significant share to the total production of matches in Tamil Nadu.

It has been found that 18 match units of Sivakasi have performed the sales during 1988-89 for rupees less than 50 lacs while another 5 units have sold matches between Rs.50-100 lacs. The percentage of credit sales of such units is ranging from 75 per cent to even 100 per cent. 22 Units maintain the receivables to the extent of rupees less than 10 lacs, whereas 3 units have presented a record of receivables which lie between the range Rs.10-20 lacs and the remaining one unit maintains the receivables above Rs.20 lacs.

The third chapter centres its discussion on sales management in the match industry. The overall management of sales, in a large size match unit, is carried out by a separate section called "Sales Section". In small firms, the proprietor or partner of a firm takes care of sales.
The match units of Sivakasi have established their market throughout India. They market their products only in the quantum of a 'Bundle' which consists of 600 match boxes. The selling price is fixed for a bundle and the price is between Rs.85 to 100.

It has been explored in this study that a majority of the match units (65.39 per cent) prefer the channel: Producer - Intermediaries (dealers, agents etc.,) - Customers. To boost up the sales the match units follow sales promotional activities such as discount coupon system, free unit packing scheme and provide discount. More than half of the units are adopting the free unit pack as a promotional tool especially for slack season. The concept of marketing research is still absent in match industry.

In match industry, the variables such as level of sales and the number of customers, average amount of receivables and number of customers, and amount of credit sales and number of customers are having the statistical relationship which is linear. It is also known that there is a high degree of positive correlation between the sales price and cost of sales in match industry. There is a slightly high degree of association
between the variables viz., size of the firm and size of the market, size of the firm and variety of matches, and size of the firm and distribution channels, while in the case of size of the firm and sales promotional measures the degree of association is slightly low.

The fourth chapter deals with credit policy of match industry. It has been brought to light that 50 per cent of the units adopt normal credit policy. Few units adopt lenient credit policy because of market fluctuation and reliability of the customers. It is harm to note that the units under this study whether small or large have not developed any technique either to fix or relax the credit standards in practice. They design the credit standards arbitrarily.

It has been found that the match units normally allow 30-45 days as credit period to their customers. The most important factor that influences the credit period decision is 'Repayment Capacity' of the customers. Bank's norms and market condition are also taken into consideration while taking credit period decision. The match units do not favour the cash discount offerings. Only two units out of 26 units have offered cash discount.
The fifth chapter has given a special emphasis on evaluation method of credit applicants and collection policy of the match units of Sivakasi.

It has been observed in this study that the match units in Sivakasi measure the credit worthiness of the customers by collecting information from various sources such as personal judgement, trade reference, bank reference and financial statements. Most of the match units, forming 15 in number have considered the personal judgement for evaluating the credit worthiness of the customers. The match units have given equal importance to the trade reference next to the personal judgement. However, the follow-up of the trade reference is not very common. Under the personal judgement the promptness of the customers in payment is measured during the credit evaluation period. First three to six months, the match units accept the order of a new customer on cash basis only. This period is called 'credit evaluation period'. Promptness in payment during this period is considered for credit extension. The minimum and maximum credit limit allowed by the sample units to a customer is Rs.5,000 and Rs. 4,00,000.
The analysis of the collection policy of the match industry shows that two third of the sample units are following a normal collection policy. It gives a conclusion that the collection policy of the match industry is neither strict nor soft. Among the various modes of receiving payment viz. cash, demand draft, cheque and mail transfer the match units prefer demand draft as the convenient mode of payment.

If a customer fails to settle his account, proper contact is made with him through letters, telegrams and personal visit. A high majority of the match units to inform the default customers about their negligence prefer letters comparing to other modes. The match units donot cut the business contact with default customers immediately. The study witnesses that only 23.08 per cent of the units have resorted towards legal action. In case of dishonouring of bills discounted 15.38 per cent of the units have stopped the further business with the default customers and the remaining units have requested the customers to pay promptly. Sometimes the default customers are warned. The match units prepare the accounts receivables report monthly, to keep a watch on outstanding accounts.
The scrutiny of the financial data of sample units presents that the lowest accounts receivables turnover ratio is 4.86 and the highest is 56.29 times. It also explains that only few units are managing the receivables in an effective way by keeping the turnover for more than 20 times. The credit period allowed by the sample units varies from 7 to 45 days, for the year 1988-89. But the analysis shows that the average collection period is 7-90 days. The collection period is more than the credit period allowed. It reflects that collection efforts are not so efficient to collect the due within the stipulated time. In other words, the match units are unable to collect the dues within the credit period permitted.

The variables of receivables namely average amount of receivables and amount of credit sales, have a positive degree of association and a linear relationship. However, there is a high degree of relationship between the variables – the receivables turnover, the average amount of receivables and the amount of credit sales of match units in Sivakasi. There is a low degree of negative relationship between the age of the firm and the receivables turnover of the match units. The degree of association between the collection policy and credit policy,
collection policy and receivables turnover and credit policy and receivables turnover is moderate one.

The sixth chapter has highlighted the bills financing of commercial banks. Bank finance represents the most important source of financing the current assets of match units. The other sources, in the order of importance given by the match units are own funds, trade credit, internal source, relatives'/allied concerns' deposits and short-term borrowings. The commercial banks support the match units in two ways in the case of bills financing. One is hypothecation of book-debts and another is purchasing and discounting of bills.

An appreciable portion of the match units forming 69.23 per cent have utilised the facility of purchasing and discounting of bills. The rest of 30.77 per cent of the units did not avail any one of these two facilities. The margin fixed by the commercial banks varies from 10 per cent to 50 per cent in case of book debts and 10 per cent to 25 per cent as far as bills are concerned. Only 6 units out of 14 units have availed the facility of bills financing and they have received 90 per cent of the value of the bill, as advance against bills.
The problems faced by the commercial banks regarding bills financing are delay in getting statement of receivables, supply of goods through unapproved lorry operators, late in retirement of bills and seasonal variation. The opinion of the bankers about the match industrialists is also viewed and it is favourable one regarding the credit standing, aspiration, attitude and promptness of the match industrialists of Sivakasi.

PROBLEMS AND SUGGESTIONS

There are a number of problems challenging match industrialists in managing the receivables. They are discussed in the following paragraphs:

MARKET CONDITION

Market condition is the most acute problem to the match industrialists in managing the receivables. Cut-throat competition and slack season compels the match units to adopt a lenient credit policy as well as a liberal collection policy. Owing to heavy competitive pressures, most of the match units follow an independent credit policy as they like. It results in ineffective management of receivables.

To tackle this situation, it is advised that first
a match unit has to limit its activities considering the demand and competition, to a particular regional market. After identifying steady demand in the regional market the match unit has to put forth all sorts of efforts to maintain the established demand. This course of action may solve the problem of competition in the market. During slack season, free unit scheme may be put into practice to capture regular orders from the customers.

ADDITIONAL INVESTMENT

Additional investment of money is yet another problem encountered by the match industrialists. Extending credit to customers creates receivables. The various costs involved in managing the receivables are cost of additional capital tied up, administrative expenses, collection costs and bad debt losses.

Compare to other industries, the match industry adopts a very lengthier process for collecting the dues from the customers. The match units collect due from the customers usually after two months. It results in investing of additional funds in receivables. It is known that the receivables management becomes ineffective
unless the level of receivables is low. The match units are advised to maintain the level of receivables as low as possible. For accomplishing this task, the following tactics may be applied.

a) Wherever it is possible, a match unit may sell the matches on cash basis particularly when demand is stable one.

b) The match unit may curb the credit period allowed to a possible extent. It will reduce the blocking of money in receivables.

c) It is advisable to follow the pattern of sales-documents through bank which gives assurance for prompt payment and reduces risk.

d) A match unit may speed up the collection efforts either by applying strict collection policy or appointing collection agents. It is highly suitable for those units which follow the pattern of direct sales and

e) Offering of cash discount may be put into practice by the match units. This measure is helpful for reducing the costs involved in unwanted commitments.
EVALUATION OF PROSPECTIVE CUSTOMERS

Evaluation of new credit applicants is of third major problem in this regard. It requires a great care and skill on the part of match units. For small firms referring the sources like, bank reference, trade reference and financial statement is of highly impossible. Hence, the accurate assessment of the credit standing of the prospective customers becomes difficult. A majority of the match units are simply gauging the credit worthiness of the customers on the basis of personal judgement. such a practice does not serve the real purpose. Though a few firms adopt the trade reference for knowing the credit standing of the customers they unable to follow it as a common trade practice.

In order to thrash out the drawbacks of the present system of evaluating the prospective customers, the match industry may prefer the bank reference for evaluating the customers' credit soundness. For trade reference follow-up actions may be taken by the match units. These steps may save the firm from the hurdles relating to customers evaluation.

Collection agent may be deputed to evaluate the
credit worthiness of the prospective customers in addition to collecting the dues. The match units as a whole may adopt a standard credit evaluation period to evaluate the customers who approach for fresh credit. This may be highly benefited to the match units to solve the competition among them. Further, the bad debts losses may be reduced.

COLLECTION OF DUE ON INSTALMENT

The match units follow the pattern of direct sales and collect the dues on instalments basis. By taking this as an advantage, some customers willfully cause delay in paying their purchases. Due to such practice the average collection period becomes lengthier compare to the credit period actually allowed.

It is recommended that the match units must decide a credit limit to be allowed to each and every customer based upon the risk involved. They do not allow the customers to enjoy the credit limit beyond the limit fixed. The repeated orders can be accepted only if the previous dues are settled properly. It will avoid unnecessary blocking of fund in one account, and it will accelerate the operating cycle of a firm.
RECEIVABLES FINANCING

The problems pertaining to the receivables financing by commercial banks also affect the overall management of receivables. The problems identified are loss of interest or discount, delay in getting the intimation of collection of discounted bills and high rate of margin. The various costs involved in receivables financing are discount rate/interest, collection charges and postage. These costs occupy a significant portion of the benefits to be arisen from credit sales.

The bank charges interest until the intimation containing the payment on discounted or purchased bill is received from the collecting banker. It results in loss of interest on the part of match units in addition to the actual interest or discount rate paid on bills. The negligence on the part of either collecting or paying banker forces the match units to waive some interest.

To solve the various problems of financing the receivables, the match units may step into the following ways:

a) Financing of receivables through short-term bank finance may be curbed to some extent.
b) It is advisable that the match units may make use of the internal sources to a greater extent for financing the receivables.

c) The match units may approach the bankers, whose rate of margin on bills financing is low and

d) It is prudent one to execute the orders by documents through payment (D/P) Bills. It helps the bankers as well as the match units in collecting the dues in time.

LEGAL ACTION

Lastly, taking legal action against the defaulted customers gives additional burden. Sometimes, it causes for the loss of number of prospective customers.

The match unit should measure the financial soundness of the customers accurately and take appropriate collection efforts at all stages.

In simple, to have an effective control over the receivables, the match units are advised to give due consideration to the following factors.
Firstly, the match industry has to formulate a comprehensive credit and collection policy. For accomplishing this task, the match industrialists of Sivakasi may sit together under the auspicious of All India Chamber of Match Industries and outline a standard credit policy. It paves the way for adopting a uniform credit policy in marketing of matches. This co-operative effort may solve the problem of competition prevailing among the manufacturers and bring a moral support for the upliftment and further development of match industry in India.

To have control over the level of receivables, the match industry must develop a well-defined collection programme, prepare monthly accounts receivable report, adopt financial ratio techniques and appoint collection agents.

For proper evaluation of credit worthiness of new customers the match industry should,

1) adopt a uniform credit evaluation period

2) consult with the references provided by the new customers and take necessary follow-up action.
The larger business firms may develop the practice of classifying the customers on the basis of risk determined in financial statement analysis for identifying the financial soundness of the prospective customers.