

# COMMERCIAL CREDIT AND COLLECTION PRACTICES OF SELECTED FOOD AND BEVERAGE MANUFACTURING FIRMS IN MAKATI, METRO MANILA

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## **Abstract**

Offering credit terms has become a competitive tool to entice potential customers however business executives have become worry because of slower economic growth, a worker purchasing power and higher inflation.

This study provides some perceptions from the food and beverage manufacturing giving credit and collection practices.

The firms service of credit information was customer's payment history and bank reference. Character and capacity of the management were the highest criteria. All firms preferred cash on delivery, or used o sale force in collection.

**Keywords:** Food and beverage, commercial credit and collection, credit management.

Economic growth has had its impacts on the new life and consumption pattern of the general community in the Philippines lately that requires greater convenience in doing everything including taking food and beverage. Food consumption in Philippines increasing from time to time. It was recorded that 1994 family income and expenditure survey showed 47.8% of total family expenditure spent on food.

A recent survey made by the Makati Business Club, among its business executives indicate they worried because of the depreciation of the peso, rising interest rates, and the deterioration of the peace-and-order situation. They see slower economic growth, higher inflation, a weaker purchasing power, a freeze in hiring many work places, and retrenchment in others. To anticipate the global trend toward globalization and to restore have a series of policy change to fire up competition that enhance value of products and services.

Securities and Exchange Commission reported that sales of food manufacturing firms for the year 1996 show an increase of 6.2% from 1995 level, but profit decreased by 12.1%. on the other hand beverages firms enjoy sales increase of 13.6% as well as profit increase of 7.2%.

In today's economy, offering credit terms has become a competitive tool to entice potential customers and it has become an integral part of the Filipino way of life. When a firm sell on credit, a portion of its working capital is tied up for the duration of credit. The bigger volume of credits sales. The bigger the investment of the firm in receivable. Since this activity costs the firm a relatively significant amount, it has to be managed. Therefore, it is needed for the food and beverage manufacturing firms to establish sound and efficient credit and its collection.

With the foregoing considerations, the researcher feels that there is a need to inquire into the commercial credit and collection practices employed by selected food and beverage at their head offices in Makati, Metro Manila.

## STATEMENT OF THE PROBLEM

This study aims to assess the respondent firms' perceptions regarding present practices of commercial credit and collection in the food and beverage manufacturing firms at their head offices in Makati, Metro Manila.

Specifically, this study seeks to answer the following questions:

1. What are the existing commercial credit and collection practices of food and beverage manufacturing firms.
2. Are there any significant differences in the perception of the respondent firms' regarding commercial credit and collection practices.
3. What are the problems encountered by food and beverage manufacturing firms in the present commercial credit and collection practices?
4. What solutions are recommended by the respondent firms for these problems?

## RESEARCH DESIGN

The descriptive-normative survey method was used in the study as it sought to describe the present commercial credit and collection practices of ten food and beverage manufacturer and the factors affecting it.

The research instrument used were questionnaires and interviews. The researcher used purposive sampling of twenty-one respondents of which consisted of ten managers and eleven rank-and-file.

## FINDINGS

Problem 1. The existing commercial credit and collection practices of selected food and beverage manufacturing firms are the following:

### **Credit Information**

#### **Direct (customer's supplied) information**

The grand mean value for direct information practices reveals that the customer's payment history (AWM= 4.28) was strongly agreed. Personal interview (AWM= 3.79) and financial statement (AWM= 4.23) were rated agree. The grand mean average of 4.32 shows that food and beverage manufacturers was agreed, while firm I (AWM= 5.0) and firm J (AWM= 4.75) were strongly agreed.

#### **Indirect (outside) information**

As to the agreement of the indirect information that credit reporting agencies (AWM= 3.88), bank reference (AWM= 4.48), industry and trade shecking (AWM= 3.57) were agreed. The grand mean average of 3.77 shows that the respondents agreed to the indirect information practices.

### **Credit Criteria Qualitative analysis**

As of the five C's practices, character (AWM= 4.63) and capacity (AWM= 4.72) were strongly agreed. The other qualitative analysis had been considered agree. In general, the respondent firms agreed the implementation of five C's (GMA = 4.27).

### **Quantitative analysis**

The average weighted mean of 4.54 shows that the practices of financial statement analysis were strongly agreed, while credit scoring was agreed (AWM = 3.77). Overall performance of the respondents to quantitative analysis practices was agreed (GMA = 4.16)

In relation to financial statement analysis, managerial efficiency ratio was strongly agreed (AWM = 4.57), while liquidity ratio (AWM = 4.29) and solvency ratio practices had been considered agree (AWM = 3.88). The grand mean average of 4.27 indicates that the respondent firms agreed with these practices.

### **Credit Limit**

All food and beverage manufacturing firms set credit limit.

Sales payment history, financial health of customer, net working capital, profit margin, amount of competition, effectiveness collection effort, and customer's sales policy were practiced by majority of firms.

The respondents noted that credit and collection manager approved credit lines, while finance manager and vice president treasury were authorized to approve for larger amount.

### **Credit period and terms**

All respondent firms preferred cash basis or cash on delivery (COD). To small or new customers, the majority of respondents required prepayment. Normally credit term up to 90 days was offered to qualified customers with discount given by CIIF group up to ten percent.

### **Steps to extend credit**

The perceptions among the respondent firms to steps of extending credit were no significant difference. The manufacturers set and raise credit limit, approval, recommendation from sales officer, filling of application, investigation; and personal interviews were practiced by the respondents. Appraisal of mortgaged properties was required by firm C and F.

### **Collection Strategies**

#### **Tools and aids of collection.**

The used of monthly or periodic statement (AWM = 4.97), telephone (AWM = 4.63) and field collector (AWM = 4.75) were strongly agreed. Among the respondents, firm F (AWM = 5.0) and firm I (AWM = 5.0) rated strongly agree while other majority of respondent firms agreed to these practices.

#### **Collection of current account.**

In collection of current account, the use of sales force (AWM = 4.78) was considered strongly agree, while the used of credit and collection staff (AWM = 4.17), business unit manager (AWM = 4.50), and marketing staff were agreed (AWM = 4.0). Overall, the respondents were agreed to these practices (GMA = 4.33).

#### **Collection of past due account.**

The respondents preferred in-house personnel to handle collection of past due account (AWM = 4.88). Overall, the respondent firms agreed to the personnel involved in collection of past due account (GMA = 4.41).

Problem. 2. Significant differences in the perception of respondent firms there were no significant differences in credit information (direct and indirect), credit criteria (quantitative analysis), and collection with probability values greater than  $\alpha$  level of 0.05. Thus, the null hypothesis was accepted.

There was significant differences in terms of qualitative analysis with the probability value less than  $\alpha$  level of 0.05. Thus, the null hypothesis was rejected.

Problem 3. The problems encountered by the food and beverage manufacturing firms in the present commercial credit and collection practices are as follows:

#### **Credit**

- Slightly agreed that some of application forms were not properly filled up and required documents were not submitted by the customers (AWM = 3.31).
- Slightly agreed that limited information were furnished by credit investigation agencies (AWM = 2.74).
- Slightly agreed that delay time in processing of the applicant (AWM = 2.83).
- Slightly agreed that there were miscommunication on terms and condition of the credit (AWM- 2.52).

#### **Collection**

- Agreed that customer could pay, but must be forced (AWM = 3.58)

Problem 4. Solutions recommended by the food and beverage manufacturing firms on the problems encountered in the practices of commercial credit and collection as follows:

#### **Credit**

- Strongly agreed on simplification of credit procedures (AWM = 4.60).
- Strongly agreed to upgrade relationship though better communication (AWM = 4.80).

#### **Collection**

- Strongly agreed good collateral (AWM = 4.60), and
- Strongly agreed that banks help manage post-dated check (AWM = 4.57).

#### **Conclusions**

From the foregoing findings, the following conclusion were arrived at:

Problem 1. The existing commercial credit and collection practices.

#### **Credit information**

##### ***Direct (customer's supplied) information.***

Overall, the food and beverage manufacturing firms agreed in terms of direct information practices.

##### ***Indirect (outside) information***

The perception of the respondent firms agreed with indirect information practices.

## **Credit criteria**

### ***Qualitative analysis***

Qualitative analysis practices of character and capacity were strongly agreed, while capital, condition and collateral were agreed.

The overall perception of the respondents were agreed to implement the five C's credit.

### ***Quantitative analysis***

The respondent firms perceived agree to quantitative analysis, especially financial statement analysis, which was rated strongly agreed.

In relation to financial statement analysis, the respondents agreed to implement these practices, especially managerial efficiency ratio, which was strongly agreed.

## **Credit Limit**

All the respondents firms set credit limit. Sales payment history, financial health of customer, net working capital, profit margin, amount of competition, effectiveness collection effort, and customer's sales policy were practiced by respondent firms.

Further, respondents perceived that credit and collection manager was the one who approved credit lines, while finance manager and vice president treasury were given authority to approve for larger amount.

## **Credit period and terms**

All food and beverage manufacturing firms preferred cash basis or cash on delivery. To small or new customers, the firms required prepayment. Normally the manufacturer offered ordinary credit term up to 90 days to qualified customers. Discounts were given by CIF group up to ten percent.

## **Steps to extend credit**

Steps to extend credit among the respondent firms were no significant difference. Set and the respondent firms practiced raise credit limit, approval, recommendation from sales officer, filling of application, investigation, and then personal interviews, firm C and F required an appraisal of mortgaged properties.

## **Collection**

### ***Tools and aids***

The respondent firms perceived that they agreed to these tools and aids practices. The used of monthly or periodic statement, telephone, and field collector were strongly agreed.

### ***Collection of current account***

In collection of current account practices, the used of sales force was considered strongly agree. The grand mean average shows that the respondents agreed to these practices.

### ***Collection of past due account***

The food and beverage manufacturing firms agreed to personnel involved in collection of past due account practices, especially in-house personnel who were strongly agreed.

Problem 2. Significant differences in the perception of respondent firms’.

- There were no significant differences in the credit information (direct and indirect), credit criteria (quantitative analysis), and collection with probability values greater than  $\alpha$  level of 0.05. Thus, the null hypothesis was accepted.
- There was significant difference on qualitative analysis of credit criteria with probability value less than  $\alpha$  level 0.05. Thus, the null hypothesis was rejected.

Problem 3. The problems encountered by the food and beverage manufacturing firms in the present commercial credit and collection practices areas follows

#### **Credit**

- Slightly agreed that some of application forms were not properly filed up and required documents were submitted.
- Slightly agreed that limited information were furnished by credit investigation agencies.
- Slightly agreed that delay time in processing of the applicant; and
- Slightly agreed that were miscommunication on terms and condition of the credit.

#### **Collection**

- Agreed that customer could pay, but must be forced.

Problem 4. Solutions recommended by food and beverage manufacturing firms on the problems encountered in the practices of commercial credit and collection practices are as follows:

#### **Credit**

- Strongly agreed on simplification of credit procedure, and
- Strongly agreed to upgrade relationship through better communication with customers.

#### **Collection**

- Strongly agreed good collateral, and
- Strongly agreed that banks help manage past-dated check.

### **RECOMMENDATIONS**

After an evaluation of the foregoing findings and conclusions, the following recommendations are hereby advanced:

1. Since sales people are the front-liner who gather information, evaluate credit worthiness of applicant, the credit manager must review report and recommendation of sales people, then conduct his own bank and trade checking through mail, telephone inquires or employs investigation to get necessary information.
2. It is suggested that the firms whose lack of qualified personnel at may recruit additional staff, train in-house credit personnel at least twice a year, attend seminars in order for them to be more effective, efficient and broader their knowledge to the advantages of the firm.
3. Use reliable indirect (outside) information, especially credit information bureau (see telephone directory), and credit management association of the Philippines (CMAP) to

investigate intensively his customer/potential customer, other related business environment and interchanges quality credit information amongst industry and trade.

4. Make the application forms simple, understandable and accommodate important data.
5. Follow up through telephone or personal visit to overcome delay in processing of applicant.
6. The approved credit line is communicated by letter indicating approve credit line, terms and condition of the credit privilege. The amount of credit line should be determined by capacity to sell and pay promptly.
7. The food and beverage manufacturer must maintain harmonious relationship with customers, thus think 'qualities than quantities' customers.
8. Open accounts at bank that has service of managing past-dated check. (e.g. Asian bank, etc.)
9. Based on experienced and judgment, credit manager may control sales volume and risk, or request collateral from customer who experienced poor credit risk.
10. Computerization of all the data or information of the customers to be network with the management information system (MIS).
11. To face the era of globalization year 2003 and above, the food and beverages manufacturer must improve the research and development program to produce a competitive, safety, and quality of product that can compete with the import products.
12. Lastly, approach the supplier of materials to request financial assistance program and/or technical assistance from the equipment supplier.

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