ASSESSMENT ON CREDIT ADMINISTRATION PRACTICE

The Case of Vision Pharma

Prepared By: EtsegenetMamo

SGS/0050/2004B

Thesis Submitted as a Partial Fulfillment of

The Requirements for the Award of Master's Degree in Business Administration

From St. Mary's University

Supervised by:AbebeYitayew (PhD)

May 2015

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______________________	______________________
Dean, School of Graduate	Signature
______________________	______________________
External Examiner	Signature
______________________	______________________
Internal Examine	Signature

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Abstract

The Ethiopian pharmaceutical industry employs trade credit throughout its supply chain system, and as a member of the industry, Vision Pharma also conducts trade credit, making it the main trading system for the distribution of its pharmaceutical products. Sincemanagement of trade credit has atremendous effect on organizational performance, the study is determined to achieve the objectives of describing the actual practices of credit administration of the company, identifying the problems faced in its administration and identifying solutions for the improvement of its trade credit practice. This assessment has revealed the practices of the company in its trade credit administration and also identified problems associated with it using descriptive method. Huge accounts receivable records, inconsistencyin using credit instruments,weak legal action taking stand against defaulting customers, and undermining competitors' performance in relation to trade credit are the major problems of the organization identified in this assessment. Accordingly, development of receivable account managing and evaluation schemes,proper implementation of credit instruments, defined legal actions towards handling defaulting customers, and periodical market analysis and assessment to evaluate competition are believed to help improve its present performance of trade credit administration practice of the organization. In general, the assessment has brought the detailed processes which made the organization out perform its competitors and presented solutions on how to further make it better.

Declaration

I, Etsegenet Mamo declare that the material that this research report has never been submitted to any University or Institution of higher learning for any academic qualification.

All the work is original unless otherwise stated.

Signed ___________________________ Date ___________________

STUDENT: ETSEGENETMAMO

SGS/0050/2004B

Approval

This is to certify that this research report is compiled by EtsegenetMamo on a topic entitled

“Assessment on credit administration practice: The case of vision pharma”. On this note, I wish to approve and there after recommend the same for presentation as a partial fulfillment of the requirement for the award of General Masters in Bachelor of Art from St’ Mary’s University

.

Signed ______________________ Date ___________________

SUPERVISOR: ABEBEYITAYEW (PHD)

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I appreciate the management and the employees of Vision Pharma for their involvement and support in the conduction of this study. I especially like to express my sincere appreciation for Mr. Tsegaye G/Yesus&Mrs Genet Zekarias for allowing me to do the study on their company.

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CHAPTER ONE

Background

1.1 Introduction

1.1.1 Pharmaceutical industry - An over view

Since the beginning of time, mankind has always been trying to find cures for diseases and pains that may occur for many generations. Through many practices and research and developments, the life of the global society has been brought to light in terms of modern medications.

Globalization has a tremendous effect in the wide spread trading of these modern medicines all over the world. According to the WHO report made on November 19, 2014, making its market share worth US$300 billion a year,the pharmaceutical sector continues to be profitable and competitive sector which makes it a very crucial industry in today's global economy.

The Ethiopian pharmaceutical sector is regulated by the then Drug Administration and control Authority (DACA), now FMHACA(Food, medicine and health care administration and control authority of Ethiopia) which became operational on September 2001. The industry involves many business entities in different level along the industry supply chain. The supply chain mainly consists of local pharmaceutical factories, importers, wholesales, pharmacies and drug stores, and finally the end users.

Trade credit is crucial in determining competitiveness and sustainability of organizations in the pharmaceutical industry. It also has been applied as a means of customer attraction and sales boosting mechanism by the industry firms. It enhancesproper circulation and widearea coverage of medicines byproviding easy access to capital requirement through credit.

1.1.2 Trade Credit and Vision Pharma

As a student researcher, Wamuwaya Henry S, made his conclusion on the strong relationships between trade credit and sales volume, on his study on Kampala pharmaceutical industries.Vision Pharma, as part of the Ethiopian pharmaceutical industry, also uses trade credit to enhance its sales volume and sustain its multimillion birr distribution company from year to year.

With an average credit period of two months and an average profit margin of 7.5% discount from supplier companies, Vision Pharma's policy is to provide its customers with two months of credit to enhance its sales and secure business continuity with its customers.

As the company's 2006E.C fiscal year report shows, the company had 18,187,968.73 birr liabilities strictly for the purchases of goods for sold from supplier companies and a 33,692,081.01 birr accounts receivable balance with its customers. (Dereje N. and Rahel G., 2014)

Payments to suppliers are subjective based on the credit agreement of each organization. Considering the credit supplies that still haven't due, Vision Pharma has been able to free 2,434,858.72 birr of its cash resource for working capital as cash at bank as of end of 2006E.C fiscal year. (Dereje N. and Rahel G., 2014)

According to the company's strategic planning, the company's yearly plan of 2013-2014 is to achieve 10 million birr sales per month and the actual average sales for the period is 10,050,217.79 birr. Since the policy states that customers are on average entitled for two months of credit period, thestandard receivable levelis 20 million birr per month.

But the company's 2006E.C fiscal year report shows that there was a 33,692,081.01 birr account receivable balance. The 68.46% incremental deviation from the standard receivable amount, aside from seasonal sales fluctuations,explains partly customers' dishonoring to pay on time as per their trade agreement.

Though this is the fact, in comparison to other distribution companies in the industry, the trade credit practice of Vision Pharma has been observed as one of strongly administered business entity and has shown tremendous growth over the years.

1.2 Statement of the problem

Trade credit is practiced in the pharmaceutical industry as one means of enhancing business and securing continuity. Vision Pharma, as part of the industry has been practicing trade credit for the last eight years(Kedir T. &TsegayeG.Y., 2012). The company's uncollectible rate of 68.46% from the standard receivable level of 20 million birr per month shows that the organization has a high risk of capital tide-up under the receivable account. Assessing the practical administrationof trade credit on both upward and downwardbusiness chains will help to determine the problem that leads to uncollectible of receivables and also determines the right approach of administration and practice of trade credit for business.

1.3 Research questions

- What practical activities are involved in the administration of Vision Pharma's trade credit management?
- What are the reasons that are creating the undesired receivable build ups of the organization?
- What are the remedies to be taken to reduce the uncollectible of the organization?

1.4 Objectives of the study

1.4.1 General objective

Assessment of the overall trade credit practice of the organization will help to determine the specific difficulties it faces in its receivable management and work towards their solutions.

1.4.2 Specific objectives

1. Assess the trade credit practices of the organization.
2. Identify reasons for the receivable buildups of the organization
3. Find remedies to reduce the receivable balance of the organization.

1.5 Significance of the study

The study describes the meanings of trade credit and its practice in the case of a single organization, but the outcome can be generalized with some consideration of differences among other similar and related organizations along the industry. It gives cautiousness about the levels of credit finance to accommodate in a business and how it should be administered appropriately. It will also present recommended ways of applying good credit administration in a business.

This enables organizations to develop a customized standard operating system or a policy which will serve their purpose in the best possible way.

1.6 Scope of the study

Vision Pharma has been using credit finance for the purchase of goods for sold and have been proving those goods in credit for its customers ever since its establishment. Accordingly, the study is focused on the assessment of trade credit practices of the organization in Addis Ababa. The assessment is done by taking the current implementation of trade credit operation and practices of the organization on 2006E.C.

1.7 Limitations

The Ethiopian pharmaceutical industry is a vast sector which involves many chained industry participants at different level. Choosing a single organization from the entire industry, though it is an organization involved in both upward and downward trade credit, limits in revealing variations in the conduction of trade credit at manufacturing, import and other levels of the industry.

The research has also faced data limitation in the attempt to gather information from top management of the company.

1.8 Organization of the study

The study has five chapters. The first chapter presents the general purpose and background of the study. The second chapter presents the review of related literatures to further strengthen the argument. The third chapter presents the methodology and data collection techniques, and forth chapter presents the findings and analysis. The final chapter presents the conclusion and recommendation part which will be arrived after the analysis of study.

CHAPTER TWO

Review of related literature

2.1 Trade Credit Definition

When delivery of goods and services take place without issuance of payment on spot, but rather later after some period of credit time, it is termed as trade credit. (Xiuli Li., 2011).

Trade credit avoids the requirement of immediate payment issuance which provides short term financial relief for cash constrained buyers.

Since small and medium organizations mostly have the difficulty to get financial resources easily, larger firms forward the goods to the customers on credit with the objective of sales boosting and profit maximization, whereby the customers, again forward the goods to their customers on credit as well, until the final consumer receives the product. Then after, payment will be made rolling backwards to the first producer or importer of the goods (Annalisa F. &Klaas M., 2012).

Trade credit serves small and starting firms as a leverage to alleviate the burden of cash demand for their inventory requirements. Firms are highly dependent on trade credit as alternative source of finance to gain more capital for their business especially when there is a limited credit access of financial institutions. (Xiuli Li., 2011), (Annalisa F. &Klaas M., 2012)

2.2 The difference between trade credit and loan

The difference between trade credit and loan is that trade credit is supplied by non-financial businesses which provide mostly in kind lending, while loans are provided mainly by the financial sector, like banks and other credit institutions. (UesugiIichiro.& Guy M. Yamashiro, 2004)

According to the empirical study made by UesugiIichiro& Guy M. Yamashiro in 2004, there are two types of differences between trade credit and loan; Institutional and Instrumental.

The institutional difference is related with the ability to acquire credit risk information, to efficiently liquidate collateral and to forcefully negotiate for smooth repayment.

The instrumental difference shows the differences in transaction costs, interest rates and moral hazard. (UesugiIichiro.& Guy M. Yamashiro, 2004)

2.3 Types of trade credit

There are two types of trade credit terms (Xiuli Li., 2011);

A. Simple net term and
B. Discounted term.

A simple net term involves the settlement of the total net amount after some credit period. For example, if the credit is a 30 days term, then payment of the total credit amount shall be made at the 30th date of the credit (Xiuli Li., 2011).

The other type of credit term is the discounted term, which involves discounts for early payments and interests for late payments to encourage cash payment of customers. For example 'a 2% discount for partial or full payments made in the first 10 days' may be provided holding the maximum date for the remaining payment of the credit for 30 days. The discounted term may also involve costs of interest for late payments which may arrive delayed after the final credit period to discourage dalliance of customers' payment (Xiuli Li., 2011).

Though few firms in the industry apply the discounted term, observing the market norm, the simple net credit term practice is applied widely in the industry.

2.4 Core features of trade credit

One of the core features of trade credit is that it is influenced by the macroeconomic factors. As Xiuli Li.stated, trade credit is influenced by monetary policy, development of financing systems, and legal infrastructure of a country.

Firm specific factors also influence trade credit practice of an organization. The level of credit depends on the level of receivable and payable account that the organization can manage within a given time period. It also depends on the willingness of customers and suppliers to expand the level of trade credit with the firm. (Xiuli Li., 2011).

2.5 Trade credit instruments

Credit policy - Company's policy should be able to determine company's credit criteria, the person responsible for checking prospective and existing customer creditworthiness, the company's standard payment terms, the procedure for authorizing any exemption and the requirements for regular reporting. The policy should be written down and disseminated to all concerned staff members of the firms. (Chartered Institute of Management)

Trade credit agreements – this is a basic instrument in which it binds the supplier and the customers to their specified terms and responsibilities. It helps to legalize the agreed business deal in cases of any disputes regarding the trade credit.

Credit insurance - Credit insurance is a mechanism firms use to protect their accounts receivables from credit risk related losses. Moreover, firms with insured receivables will be more likely to get a bank contract that allows them to draw on short term liabilities with receivables as pledged collateral. (Annalisa F. &Klaas M, 2012).

It is most commonly used in international trading, where chasing and recovering cash from customers is much harder, justifying the costs. But it can apply to any situation where large amounts of credit are extended. (Chartered Institute of Management)

2.6 Major trade credit users

Financially constrained firms - Firms facing financial constraints and less access to financial sources are significantly the main users of trade credit. (Warner Bonte& Sebastian Nielen, 2010) and (Annalisa Ferrando and KlaasMulier, 2012, p.3)

Innovative firms - According to the empirical study made by Warner Bonte& Sebastian Nielen, innovative firms resort to the use of trade credit for their businesses. Since demand of trade credit is positively related to credit constraints, and since innovative firms are more likely to be credit constrained than non-innovative firms, they are one of the main users of the trade credit system. (Warner Bonte& Sebastian Nielen, 2010)

Fast growing firms - Firms with high growth rates also tend to increase their use of trade credit relative to other sources of finance in case of liquidity. Since they use the cash on hand for other developmental and urgent growth facilitation purposes, trade credit becomes their primary choice to finance the capital requirement for input demands. (Warner Bonte& Sebastian Nielen, 2010)

Firms with intangible assets - High levels of intangible assets possessing firms are more likely to use trade credit than firms with low level of intangible assets. Financial institutions may find it very difficult to analyze the actual worth of a given firms with an intangible asset which makes it difficult to grant the requested amount of credit. Accordingly, the firms turn to credit providers for their continuous business sustainability. (Warner Bonte& Sebastian Nielen, 2010)

2.7 The Advantages & Disadvantages of Trade Credit

Trade credit has been applied for a very long time because of its benefits and advantages. But as in every trading system it also possesses its own disadvantages

2.7.1 Advantages of trade credit

A. Sales boosting marketing technique

Customers with financial constraints prefer to make business with suppliers who are willing to make credit provision to avoid the capital requirement of inventory acquisition. Customers who purchase products through an upfront payment are also more convinced to make more purchase if credit provision is placed. (Annalisa Ferrando and KlaasMulier, 2012

On the supply side, instead of suppliers making sales only to cash paying customers, making business with credit user customers also allows them to increase their outlet and possess more customers. All these outcomes result in the increment of sales volume of the firm, which in return increases the total revenue. (Annalisa Ferrando and KlaasMulier, 2012)

B. Working capital availability

Firms attempting to make cash purchases are more constrained than firms making credit purchases out of the missed out additional capital shortage. Firms using trade credit for inventory purchase can easily make other payment schemes for future credit payment while manipulating their available cash resource for other urgent capital needs. (Annalisa Ferrando and KlaasMulier, 2012

C. Business continuity

Trade credit in its nature is a business chain whereby buyers also become suppliers until the last consumer is approached. This two-fold transaction chain allows smooth provision of the demanded goods and services which convince firms are more guaranteed in the continuity of their business. (Xiuli Li., 2011), (Annalisa F. &Klaas M., 2012)

2.7.2 Disadvantages of trade credit

A. Risk of Bad debts and uncollectable

Though the use of different instruments may be in place, the risk of bad debts may lead firms to incur unnecessary costs. The untimely collection also affects the firm by disturbing its smooth cash flow schedule in its day to day trade credit management practice. (Xiuli Li., 2011).

B. Cost of additional payment

To encourage cash payments, firms usually add a certain amount of discount term for upfront payments. Accordingly, to discourage late payments, they state an additional fee of interest for the length of time the payment is being delayed. This term may cost customers with financial constraints and puts them in an even worse situation. (Xiuli Li., 2011).

2.8 Credit management

Credit management is a systematic flow of processes performed by an organization to ensure proper collection of debts incurring the very least possible amount of cost without affecting future business relationship with customers. According to Chartered Institute of Management

(CIMA), credit management highly affects the company's cash flow which makes it a fundamental process of the cash flow management of a given firm.

2.8.1 Credit management objectives

According to the credit management toolkit guide of the European Commission, there are multiple objectives of credit management. Making the general objective enabling profitable business more often and as such increasing profitability, here are the details. (Michael Sauter, 2013)

1. Liquidity – enables better cash utilization which will ensure the ability to make proper payment on time to suppliers through the use of effective cash forecasting
2. Prevention of bad debts – it can be acquired through the use of agreements, proper credit worthiness assessment, credit limit approval, real time follow up of the receivable account and in some cases, the use of credit insurance for large risks..
3. Process efficiency – it helps to define responsibility which helps to organize tasks and create work flows, determines the decision making hierarchy and reporting ladder.

2.8.2 Credit management processes

According to the European commission, the stated process of credit management involves

1. Assess customers – through the use of most current information
2. Determine credit – determine type of credit application and suitable limit
3. Control credit – credit insurances, collaterals, alternative contracts, …
4. Monitor customer – early warning system, working capital management,
5. Tract claim – overview terms and settlement dates, dunning strategy
6. Release claim - own legal department and collection ,

2.8.2.1 Receivable Management Best Practices

Here are few practices of receivable management as stated in the report made by Smyyth LLC. The lists have been tailored to fit industry specifics in the country.

1. Preparing a comfortable work process for the customer in its attempt to make timely payment should be in place.
2. Training the workers in regards to company objectives and policies about collection management and cash supply is mandatory to create understanding among workers. This helps them to give a consistent awareness to customers about the organization and its main objectives.
3. Introduce a defined receivable work flow along with its responsibility which allows workers to understand the system and its accountability.
4. Use tracking system to identify the customers' payment behavior over time and identify when to send them a dunning.
5. Define a critical time period to identify receivables that have pasted their due period. This helps to identify risky collections and make prioritization to give attention sooner, in other words it serves as an alert for drastic measures.
6. Evaluate the own collection level, and if it is enormous than what is expected to be, revise the receivable process all over.

2.8.2.2 Financial tools for receivable management

AshisMohanty, Dr. Lalat K Pani, Sukhamaya Swain have employed the following tools to evaluate the receivable management efficiency of firms in the Indian pharmaceutical industry.

1. **Receivables to Current Asset Ratio** - This Ratio of Receivables as a percentage of Current Assets would reveal the size of receivables with reference to Current Asset and the opportunity cost associated

   Current Assets Ratio = [(Closing Receivables)/ (Current Assets)] X 100

2. **Receivables to Total Asset Ratio** - It is a Ratio of Receivables /total assets (or Total Average Assets).

   Receivables to Total Asset Ratio = [(Closing Receivables) / (Total Assets)] X 100

3. **Receivables to Sales Ratio** - It indicates the amount of Receivables held by the business firm as a percentage of sales during a particular period.

Receivables to Sales Ratio = [(Closing Receivables) / (Sales)] X 100

4. **Debtors Turnover Ratio** - Debtors Turnover Ratio is termed as Receivables Turnover Ratio or Debtors Velocity. It indicates the number of times the Receivables or turn over in business during a particular period. In other words, it indicates how quickly debtors are converted into cash.

Debtors Turnover Ratio = (Sales) / (Average Account Receivables)

Average Account Receivables = (Opening receivable + Closing receivable) / 2

5. **Average Collection Period** - The average collection period is otherwise called Debt Collection Period.

Average Collection Period = (365 days) / Receivables Turnover Ratio

2.8.2.3 Payable Management Best Practices

Here are few practices of payable management as used in the payable management in the Microsoft Corporation in 2007. These lists have also been tailored to fit industry specifics in the country.

1. Keep vender records up to date to gain access to vital information. Easy to use tools help to manage payment schedules and cash flow status which in turn helps to make a better business decision.
2. Reduced overhead costs through customization and automated posting help to enhance productivity by empowering workers.
3. Implement expenses allocation through the use of automated entries.

2.9 Trade credit standard operating procedures

In the pharmaceutical industry, trade credit is an essential part of the industry that extends from the top manufacturers and importers to the final end users.

In order to get higher return from the fixed profit margins of each product in the industry, Vision Pharma applies many marketing techniques to boost its sales volume; price discounting, in kind bonus provision, door to door delivery, product diversification, etc. But trade credit is most applied to increase the sales volume of the organization.

However, trade credit may lead to undesirable outcomes on its march to high volume of sales. Unless critical analysis is made, it could lead to high cost operation in trying to collect back the receivable. High trade credit may also means high exposure to different risks in regards to uncollectible bad debts and huge capital tide-ups (WamuwayaH.S., 2012).

On the supply side, trade credit may serve as capital finance to customers by lending in kind. It allows emerging businesses to start at simple through trade credit and make payments after collection of sales turnover (Burkart M. &Ellingsen T., 2004).

Accordingly, proper administration of trade credit involves managing both accounts payable .and receivable to optimize firms' performance (Annalisa F. &Klaas M., 2012).

2.9.1 Major standard procedures of the company:

- The standard purchase volume is 9 million birr per month. On conditions of high sales seasons, the monthly purchase shall be less than the monthly sales value by 10% each month; until revised.
- On average, the total stock level shall be less than 3,600,000.00 each month. On conditions of low sales seasons, purchase shall be monitored to reduce this value; until revised.
- Any payment made for the purpose of acquiring inventory shall be performed using cheque payment according to the credit agreement entered previously with the supplier company.

- All purchases shall be made in credit of not less than two months; if otherwise, it shall be specially communicated to the authorized person; until revised.
- Purchases placed at once shall not exceed 100 thousand birr; if otherwise, it shall be specially communicated to the authorized person; until revised.
- All products purchased shall have minimum of 7% profit margin; if otherwise, it shall be specially communicated to the authorized person; until revised.
- The monthly sales target of the organization is 10 million birr each month; until revised.
- The average monthly receivable shall not exceed 20 million birr per month. Longer credit granted customers shall be handled separately; until revised.
- Each sales team will receive a 1% commission for each sale made above the minimum level each month, but only if the target previously provided for each team is fully achieved.
- Receivable shall be collected according to the trade credit agreement. Any outstanding receivable balance will be deducted from each month's commission payment until collection is done.

2.9.2 Credit administration procedures:-

- Customer assessment – assess the customers' credit worthiness using the credit assessment form
- Customers credit agreement – make a legal commitment using the customers' credit agreement form of the organization.
- Determination of credit limit – considering the collateral availability and business capacity, the credit will has to be set primarily.
- Credit sales on cheque – all credit sales in Addis Ababa (except for specially identified) shall be made explicitly on cheque
- Credit sales on cash – all cash items and regional customers (except for specially identified) shall be made explicitly on cash.

CHAPTER THREE

Research Methodology

3.1 Research approach

The studyis a descriptiveresearch whereby it is expected to assess the credit administration and practice of a pharmaceutical distributing organization which plays an essential role in the creation of the chained industrial linkage in the pharmaceutical industry. The study is expected to give an overall image of the company'spractice of trade creditand its administration through the assessment of its upward and downward business chain relations.

3.2 Population Size

The study aims at revealing the administration and practice of trade credit at Vision Pharma. This can be done by identifying actions that are taken in conduction of trade credit within the organization. Accordingly, the organization has employed sixteen staff members that are directly involved with the administration of credit. These staff members are considered as the population size for this particular study.

Since exhaustive collection of data is believed to give a solid and complete image in assessing the subject matter in depth, and since the size of the population by itself is quite accessible, the researcher was determined to use the whole population for this study.

Unfortunately, two respondents were unable to be involved in this study due to their own inconvenience. That has made the sample size for this study down to 14.

3.3 Sources of data and data collection method

Primary data were collected throughquestionnaires and interviews using semi-structured questions. Observation of actual work performance (On the job observation) isalso considered for the collection of data gathering. The use of secondary data has also beenimplemented to assess the actual account records and the standard records and evaluate their variations.

Questionnaires: were used to collect the data about the company's financial status, trade credit balance and level of trade credit involvement with its stakeholders (customers and suppliers)

Interviews: were used to gather the workflow of the trade credit practices of the organization and the level of each individual's involvement.

Observation: was conducted to further strengthen the completeness of the data gathered in regards to work flow.

3.4 Data analysis method

Since the study is typically a descriptive typeresearch, it addresses the objectives of the study byassessing the full length of the organization's trade credit practice and providing elaborative descriptionsof the company.

Data gathered is categorized under two categories; data gathered regarding uppertrade credit practice to assess the credit practices of the company with its supplier companies; and data gathered regarding lower trade credit practice to assess its practices with its buying customers. This allows the study to identify weaknesses and strengths from each side separately.

Facts are presented using tabulation, graphs and detailed descriptions of the practices of trade credit of the organization.

CHAPTER FOUR

Data analysis, presentationand interpretation

In this part, composition of the respondents, the steps taken in the conduction of trade credit, the methods involved in the control and monitoring of trade balance of the company and in general, the whole aspect of trade credit of the organizationis described using descriptive, tabulation and graphical presentations.

4.1 Composition and description of respondents

Composition of respondents

The study has incorporated individuals who are involved in the practice and administration of trade credit within the organization.

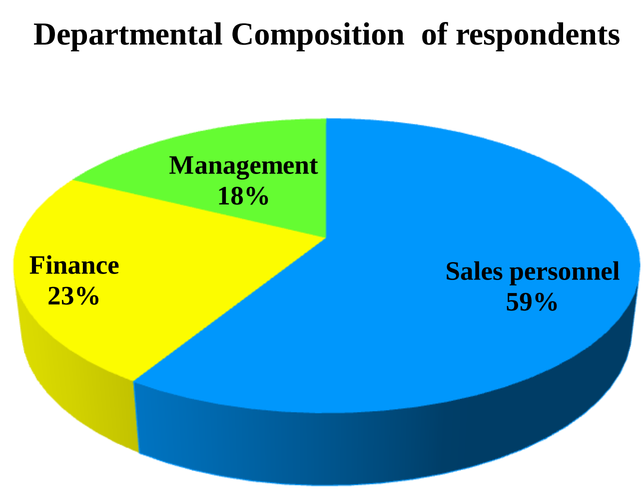

Figure 1 - Structural Composition of Respondents

Finance and management of the organization also have direct involvement in the conduction of trade credit of the organization.

The total number of the respondents was 14, and out of that, 10 of the respondents were sales representatives of the organization. The facilitation of credit sales to customers is mainly conducted through these sales representatives.

The organization has built it financial control on 3 finance workers and three managerial decision makers (out of which only one was available for the participation of this research). These personnel are responsible for the conduction of trade credit with suppliers and for the management and control of the overall proper conduction and practice of trade credit of the company.

Educational background of respondents

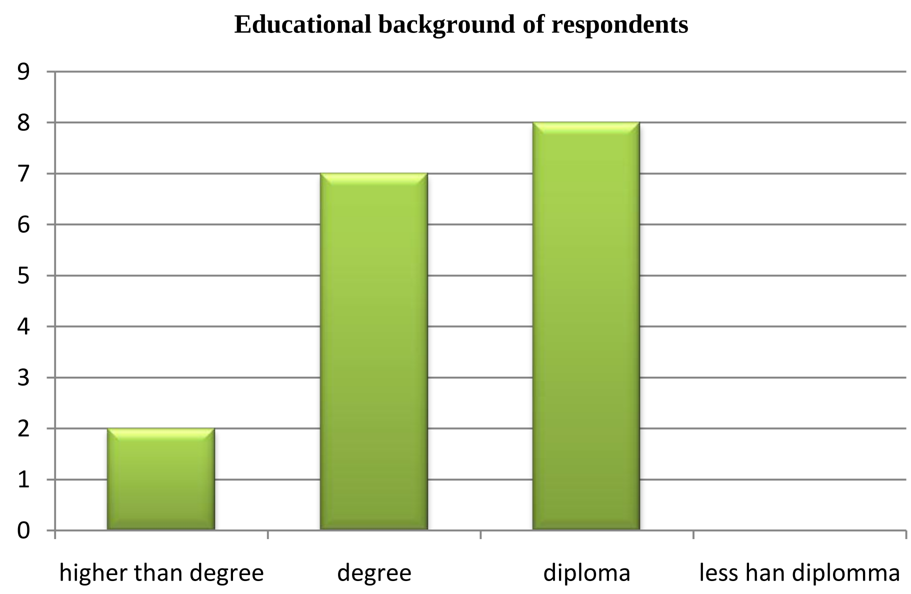

Figure 2 - Educational Background of the respondents

Observing the educational background of the respondents, the company has made educational professionalism its priority in composing its staff members regarding the administration of its trade credit.

4.2 Assessment findings

Through the use of the different data collection methods, the study has identified the steps taken in the practice of trade credit of the organization. By learning each step, the study has also discovered the strengths and weakness of organizational credit practice.

4.2.1 Description of trade credit practice in Vision Pharma

Regardless of its vast transaction, the company has implemented specific work flow activities that help to administer the process of trade credit in its upper and lower business chain relations.

Trade Credit Work Flow Chart

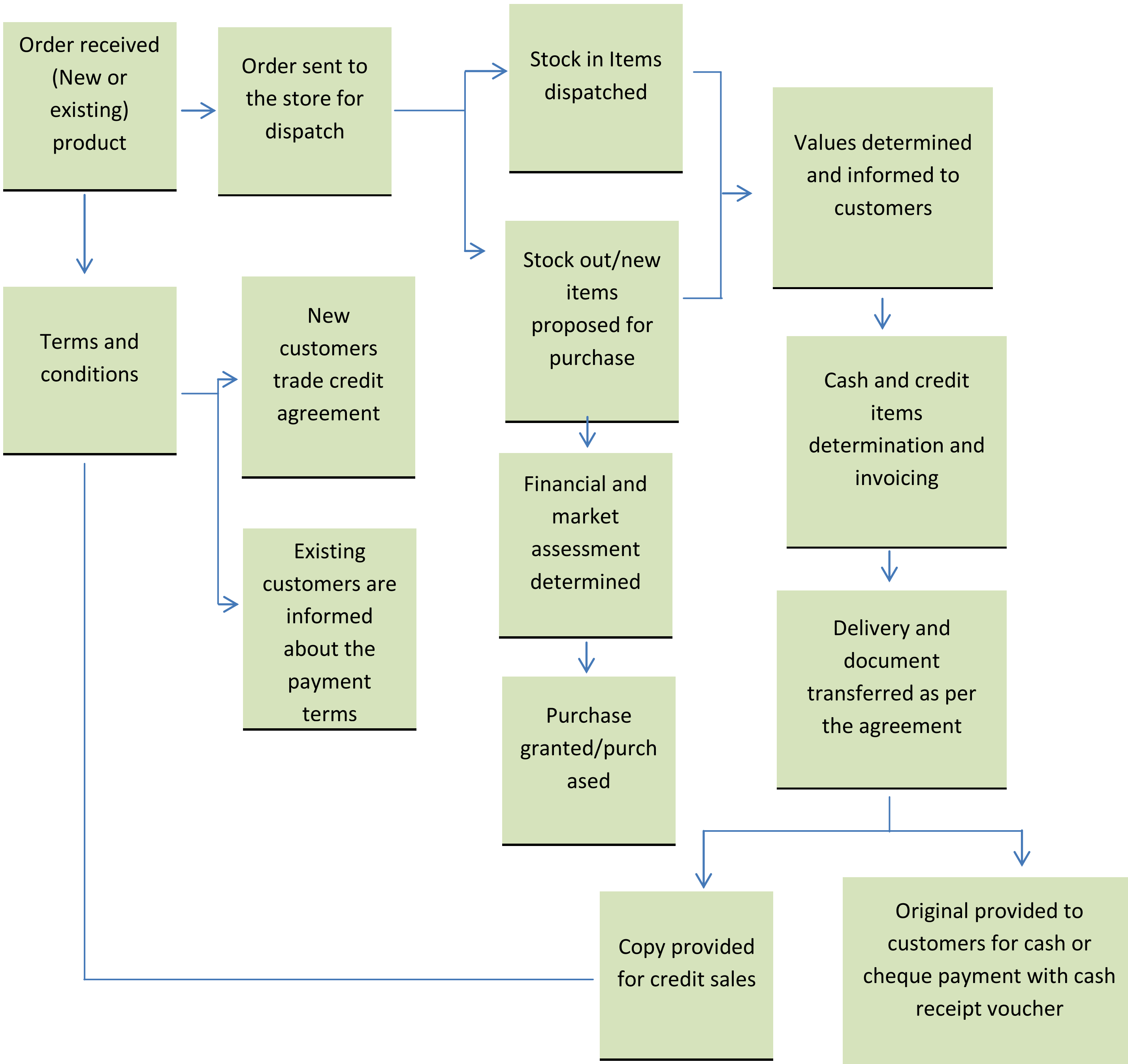

Figure 3 - Trade credit Work Flow Chart

As stated earlier, the study has made a division between the upper and lower business chains of trade credit of the company as the following;

I. Trade credit – the lower chain business transaction assessment
II. Trade credit – the upper chain business transaction assessment.

4.2.1.1 Trade credit – the lower chain business transaction assessment

According to the “On the Job” observation, and review of the company standard operating procedures, the following activities are placed to be taken within the company as a way of practicing trade credit at the lower chain business transaction.

<u>Lower chain business transaction work flow chart</u>

<table>
<tr><td rowspan="5">Lower chain trade credit practice</td><th>Steps</th><th>Option 1</th><th>Option 2</th></tr>
<tr><td>1</td><td>Sales representatives solicit orders from new or existing customer or customers will initiate the contact and places orders for existing products</td><td>Company launches new product and sales representatives promote the products to customers throughout the country.</td></tr>
<tr><td>2</td><td>sales person will contact the customer about payment for ‘payment on delivery’ (POD) and ‘cash against delivery’ (CAD) customers</td><td>Sales person contact new customers for trade credit agreement settlement with new customers. New customers are demanded to fill up an agreement form for future trade credit relations in advance.</td></tr>
<tr><td>3</td><td colspan="2">Orders are arranged as cash items and credit items while invoicing and sent for delivery</td></tr>
<tr><td>4</td><td>Copies of unsettled credit sales invoices are forwarded for customers, holding the original documents fully stamped and signed as evidence for product delivery. (Exceptions :hospitals &government institutions)</td><td>Original sales documents are forwarded for customers who make cash purchases and cash related payments like cheques. Original documents are transferred for matured creditsas well at the time of their payment along with cash receipt vouchers.</td></tr>
</table>

Table 1 - Lower Business chain transaction Work Flow

Vision Pharma is a merchandizing company which sells what it buys from the market. Its main objective is to maximize its profit by increasing its sales volume and minimizing its cost through economies of scale.

According to the company's structural layout, the sales department is sub-categorized in to two major sections as 'Addis Ababa and areas sales segment' and 'Regional and country side sales segment'. Under these two sub categories, the company facilitates its trade credit in all major cities of the country.

To allow more understanding of table 1, the lower chain business transaction work flow has been elaborated as below

Step1 - In the intention of achieving the required monthly sales target set for each sales team of the firm, the sales representatives of the company make an exhaustive contact with existing and new customers about the available products in stock. The request initiation may arrive from the customer in some cases which still adds up to the sales effort of the respective sales team who happens to handle the mentioned sales process.

In other cases, the company makes a new business deal with supplier companies to promote a new product as a sole distributer. In such cases, the item can be a brand new product for the market or it could be an already known product's sole distribution agency contract. Just the same as the previous explanation, the sales representatives put a lot of effort to promote the product so that they can receive a larger volume of orders.

Step 2 - After collecting the orders of customers, requests are summarized and arranged for dispatch which allows the preparation of quotation for the products. This quotation is then communicated with customers to describe the total value of the placed order and for the type of payment they are expected to make, whether payment is on cash, cheque or credit. Here, new customers are required to enter a trade credit agreement with the company in regards to the terms and conditions of the trade credit business aspect in advance.

Step 3 - After conformation of the type of credit term and mode of payment with customers, products are invoiced and sent for delivery.

Step 4 - In times of credit terms, the company holds on to the original invoices of products which payment is still not in effect yet. These original invoices are expected to be signed by the person in charge and well stamped for the conformation of receiving the items in good term.

In times of matured credit collection which were delivered earlier and credit sales with cheque payments on the time of delivery, the company forwards the original sales invoices for customers as a sign of full ownership of the products and as a confirmatory exchange for payment. Though cash receipt voucher is issued for each of payment received, the original credit sales document has the greater value in relation to payment in the industry.

Assessment 1 – Perception of trade credit

The understanding of trade credit in the effectiveness of its proper conduction has been assessed. Accordingly, respondents were asked about their perception of trade credit practice within the company in general.

Respondents	Responses to how trade credit is perceived
1	It is an easy term with sophisticated interdependent tasks and decisions which involves buying and selling without issuing payment on spot.
2	Provision of goods and services to customers on credit basis which benefits both parties
3	Good marketing tool for customer attraction and increasing sales volume
4	It means provision and reception of merchandize on credit
5	It is one of the best marketing techniques which allows firms to buy more and sell more in a given market
6	It is a marketing technique serving as a chain linking the upper, the middle and the lower business transactions of the industry.
7	It means receiving in credit which allows the firm to obtain the available additional capital through credit supply and forwarding it in either in cash or credit to its customers
8	It means receiving or providing in credit which helps to create an easier flow of transaction
9	It is one of the sales incremental techniques applied for so many years and helps to improve organizational performance on the over all.

10	It is a strategy which involves giving and taking in credit for better organizational performance
11	It is a transaction method which does not involve payment on delivery. It is an opportunity to decrease capital demand and increase sales volume
12	It is a two way system, trade credit in receiving and in selling. It helps to achieve the organizational objectives in a much less cash constrained way.
13	Trade credit helps firms to start easy and operate much simpler decreasing the capital demand for inputs and inventory, which in return allows fast growth and smooth expansion.
14	Credit helps improve economy in creating access for smaller and medium firms to have a better chance of competitiveness through reduced capital demand.

Table 2 - Perception of Trade Credit

The above table explains that the sales representatives of the organization have a positive perception of trade credit whereby it serves as a sales boosting marketing technique which links upper and lower level of the industry.

Assessment 2 – provision of trade credit sales

The company has categorized its customers based on the provision of trade credit under three classifications;

A. Group 1 - These customers are prioritized customers and are allowed to have more than three months of credit period. This includes hospitals, governmental institutions, and few pharmacies as well.
B. Group 2 - Customers are relatively new customers and had been honoring their debts so far. This category holds the majority of the customers of the organization.
C. Group 3 - It includes new and credit non-granted customers who are expected to make cash payments at the time of product delivery. These customers are relatively small in numbers but are termed as high risk susceptible customers for trade credit.

In addition, the sales representatives of the organization were questioned whether they provide credit sales to customers or not? All of the respondents have replied that they provide credit sales to company customers.

Taking that in account, the respondents were asked whether they provide credit facility to each of their customers; and if not, to mention the determinants for their selection of credit worth customers.

Respondents	Response to credit provision	Reasons/determinants
1	YES	I provide credit to all customers
2	NO	Not all customers pay their debts on time
3	NO	There are customers preferring cash transactions
4	YES	I provide credit to all customers
5	NO	It depends on the capacity of the customer
6	NO	Cash transaction requirement, customer's guarantee to pay
7	NO	Customers purchase in cash
8	NO	Customers purchase in cash
9	NO	Customers purchase in cash
10	NO	Customers' payment history matters

Table 3 - Provision of Trade Credit

Out of the total sales representatives, two of them stated that they provide credit sales to all of their customers with no selection. The remaining eight respondents stated that they do not provide credit sales to all of their customers. Reasons placed are summarized as below.

- Customers' preferences for cash transaction.
- Back history of the customers in regards to honoring debts on time gives indication whether the customer is a credit worthy or otherwise.
- The capacity of the customers gives some insight about the credibility of the customer for credit provision.
- Reliable guarantee of the customer whether to provide credit or not. This might include collaterals and other credentials that the customer is indeed a business oriented institution and not a fraud.

Assessment 3 – determinants of credit limitation

Respondents were asked if there are any limitations on credit, and what the basis are for their existence.

Respondents	Limited Credit	Determinants
1	YES	Customer behavior, capital and profile
2	YES	Customer behavior, capital and profile
3	YES	Regional segmentation
4	NO	No limitations
5	YES	Regional segmentation
6	YES	Company policy & customer's business performance
7	YES	Customers' capacity & history of business relationship
8	YES	Customers' guarantee to pay debts and past history
9	YES	Customers' payment history and behavior
10	YES	Capacity of the customer

Table 4 - Credit Limits determinants

According to the responses, all use determinants for limiting the credit amounts provided to their respective customers, except one.

The determinants used for limiting the amount of credit amount to individual customer are;

- Company's own policy in regards to areal segmentation and maximum credit limitation
- The customer behavior and past profile in regards to its commitment to meet its debt.
- Customers' potential in running its business and its capacity to pay on time
- Stability of the customer and collateral availability also determine the limits of credit provision.

Assessment 4 –receivables management

Practical observation of the work flow in addition to company's manual and electronic files assessment show that proper management of receivable in regards to timely collection is one of the primary focuses of the organization.

To accomplish proper receivable management, the company has employed a receivable manager to monitor and evaluate its progress. Though real time observation of the receivable account on the company database is available, the duty of receivable follow up is primarily assigned to the company's receivable manager. Accordingly, the receivable manager observes the day to day activities of the account and provides all receivable related supports to the collection personnel.

The collection personnel of the company involve the sales representatives, the assistant sales representatives and the collection officers of the organizations. Since the employment contract of the sales representatives describes full responsibility for the collection of each credit sales they make, the task of collection ties the sales representatives and the collection manager's performance together. Because of this, work interaction and continues communication among them has a determinant effect on the performance of timely collection and better receivable management.

According to the company policy, each team is expected to collect the receivable values within the stated credit period. It also states that if any sales team has receivable value that out stands for more than a month after the entitled credit period, the sales team shall not receive any commission payment at all.

On the contrary, the implementation failure of the policy which governs the company's receivable in relation to its compensation plan has a considerable impact in the effectiveness of the company's collection practice.

Assessment 5 – managing defaults

Respondents were asked whether the customers they provide credit honor debts on time or not. Accordingly, 80% of the respondents stated that customers do not honor their debts on time, while the remaining 20% said they do.

The 80% of the respondents were asked to put in percentage the number of their customers who attempt to make timely payments. On the average, the respondents stated that 72.5% of their customers make timely payments, while the remaining 27.5% dishonor the agreed credit period limit. These customers make up part of the previously stated 68.46% deviation of receivable from the stated standard receivable amount of 20 million birr per month.

Furthermore, respondents were asked to state the longest period customers may wait before making actual payments including customers who have forwarded non-sufficiently funded payment notes (cheques). Accordingly, out of the eighty percent of respondents, 25% of the stated they have customers who take up additional three months to honor their debts, while the remaining 75% stated that customers usually make their payment with in one to three monthsafter the time of the credit period dead line date.

Customers were further requested to specify frequently given reasons customer give for not honoring their debts on time. Multiple answers of respondents are listed below.

- Other incidental or unexpected payments
- Unwillingness to make payments on time
- Trade credit management problem
- Lack of good business management
- Competitors' provision of longer credit period in the market
- Request of more time for debt payment

In further assessment, credit period for especially distinguished customers which were termed as group 1 customers previously, is longer than what the general policy of the company states. These especially distinguished customers generally make up more than 70% of the company's receivable, which is 23,463,936.14 birr as of 2006E.C fiscal year report. These customers are granted more than three months of credit period which further increases the monthly receivable value. These customers include hospitals, governmental institutions, sister company owned pharmacies and few long time customers.

Assessment 6 – Risks of credit sales

In regards to risks associated with trade credit, all respondents of the company were asked to mention the possible risks exist in the system.

Respon dents	Responses
1	Payment and collectionimbalance problem
2	Risk of cash shortage because of high receivable account balance
3	Risk of uncollectible and bad debts
4	Different risks associated with bad debts
5	Risk of uncollectible and Risk of debit/credit of balance
6	Risks may result payment problems
7	Customers' unwillingness to pay on time
8	Multiple financial risks
9	Customers may hide before payment
10	Huge capital tide up may cause trade credit balance fluctuate
11	Risk of uncollectible receivable which may result profit loss
12	Bad debts may cause loss of customers and reduce revenue by reducing sales
13	Financial risk associated with loss of cash source
14	Disturbs the cash collection schedule in the monitoring of the company’s cash flow

Table 5 – Possible risks existing in the practice of trade credit

Observing the above responses, the risks that seemingly reported are primarily of financial risks; risk of uncollectible, risk of bad debts, risk of trade credit balance instability, huge capital tide ups, and loss of sales revenue out of cancellation of business with customers who do not honor debts on time.

The company has encountered number of cases in regards to uncollectible and defaults. Considering the weak stand of taking legal actions, the company has managed to do considerably in reducing its uncollectible balance.

4.2.1.2 Trade credit – the upper chained business transaction assessment

The same as the lower chain business transaction work flow assessment, the upper chain trade credit transaction work flow has also been assessed.The analysis has been presented as below.

<u>Upper chain business transaction work flow</u>

<table>
<tr><td rowspan="8">Upper Chain trade credit practice work flow</td><td>Steps</td><td>Option 1</td><td>Option 2</td></tr>
<tr><td rowspan="3">1</td><td rowspan="3">Sales representatives solicit orders from new or existing customer, or customers will initiate the contact and places orders for existing products.</td><td>New product arrives in the market</td></tr>
<tr><td>Management deals with supplier promoters about the new product price and payment and make agreements with the suppliers</td></tr>
<tr><td>Management discusses with its sales representatives about the implementation of the product promotion to customers.</td></tr>
<tr><td>2</td><td>Sales representatives receive orders and hand over stock out products to purchasing staff</td><td>Sales representatives promote the new product and receive orders from customers and send the quantity required for the purchasing staff</td></tr>
<tr><td>3</td><td colspan="2">Purchasing staff places the demanded purchase amount to the management for authorization</td></tr>
<tr><td>4</td><td colspan="2">Management analyzes the financial status and the aggregate market situation in relation to the products listed and gives authorization. Accordingly, purchase will be issued.</td></tr>
<tr><td>5</td><td colspan="2">When payment matures, cheques payments will be issued as per the prior agreement.</td></tr>
</table>

Table 6 - Upper business transaction work flow

To allow more understanding of table 6, upper chain business transaction work flowhas been elaborated as below(Tsegaye G, 2013)

Step 1 - In the intention of achieving the required monthly sales target set for each sales team of the firm, the sales representatives of the company make an exhaustive contact with existing and new customers about the available products in stock. The request initiation may arrive from the customer in some cases which still adds up to the sales effort of the respective sales team who happens to handle the stated sales process.

In other cases, the company may receive or request for a new business deal with supplier companies to be a sole distributer for certain products. In such cases, the item can be a brand new product for the market or it could be an already known product's sole distribution agency contract.

After a thorough discussion about the benefits, responsibilities, payment terms and all other related aspects, the company enters the contract and seals the deal with the supplier company. Then the company discusses with its sales representatives about the product launch and promotion package.

Step 2 - The sales representatives of the company put a lot of effort to receive a larger volume of orders from their respective customers. In this practice;

a. They discover stock out items
b. Discover the level of demand for the newly launched item

Accordingly, they compile and present the required purchase level to the purchasing staff

Step 3 - The purchasing staff compiles each sales person request and prepares a purchasing request for the management of the firm. As per the policy, any purchase that is larger than birr 100,000.00 is sent for the management authorization.

Step 4 - Analysis of the financial status and the cash balance of the company is the primary focus of the management. The management is expected to evaluate the market demand of the requested products before making decisions. This is very crucial because in some cases, excluding solely distributed products, some items purchased may reach to customers through other competitive companies and become stock burden causing unnecessary costs.

After all the analysis and evaluation process, authorization for the purchase of the requested products will be in effect. Accordingly purchasing will be issued.

Step 5 - According to the prior agreement made between the supplier and the firm, net credit payment term will be issued through cheque payment at the time of the credit period maturity.

Assessment 1 – Purchase and Payment assessment

According to the assessment made, suppliers usually present the company with documents for the purpose of describing the credit terms and conditions of the trade credit agreement entered by the two organizations.

The company has recently made its purchasing system centralized which enabled a defined responsibility of the purchasing department.

99% of the company's purchase made from suppliers is credit base and has been stated and conformed that the company has no bad history of dishonoring debt payment on time, neither does the company have received external cash injections or loans in the past five years. It's been able to manage its cash flow through strict follow up of its trade credit balance between its upper and lower chain businesses.

All company purchase payments are made using cheque payment which allows proper follow up and control of its cash account.

Assessment 2 – Stock value assessment

The company's standard operating procedure for stock value describes that on average, the company shall hold 40% of the standard purchase value, which is 3,600,000.00 birr worth each month to sustain its sales. This holding value can be compensated by the 2.5% sales increment of 10% from the standard purchase value of each month and the average 7.5% profit margin of each item.

According to the company's database for the year of 2006E.C, there has been a record of on average 5,173,181.28 birr worth of stock value each month in its store. Considering the average monthly purchase value of 2006E.C amount of 9,259,617.20 birr, on average 55.87% of each month's purchase is still in stock.This shows that there is a16.99% incremental value of stock on hand that forces the company to inter unnecessary holding costs.

4.2.2 Evaluation of trade credit practice

4.2.2.1 Upward trade credit practice evaluation

According to the payables management best practices of the Microsoft Company, Vision Pharma has the following evaluation;

- The company keeps all its transaction records including purchase and payables in its electronic database which is updated on each transaction activity of the company. Payment decisions are made depending on information which is easily obtained from this database which enables workers to make better decisions at minimum cost.

4.2.2.2 Downward trade credit practice evaluation

Credit management process:-

1. Assess customers – the company performs customers' assessment before making credit worthiness decisions which allows it to identify its customers.
2. Determine credit – depending on the results of the credit assessment, customers will be placed on one of the company's customer classification group. This allows it to identify what type of credit to provide and set the limit.
3. Control tools – the company uses trade credit agreement to legalize the system, but lacks consistency.
4. Monitor customers –this task has been primarily given to the organization's receivable personnel to make proper follow up and communication with customers.
5. Tract claim – the receivable manager has the responsibility to follow up settlements according to their previous terms. Accordingly, dunning is applied to make formal request of the claims whenever it is necessary.

6. Release claim – the organization has its legal consultant to take stands on matters of releasing claims.

Receivable management best practices

According to the receivable management best practices, Vision Pharma's lower level trade credit practice has been evaluated as follows;

- The collection officers of the company are assigned to make collection from customers going door to door, at customers' convenience using cash receipt voucher. Product and document transfers and payment collectionsare conducted simultaneously which makes the collection work flow process less costly and easy for both parties.
- The organization has employed sixteen workers who have well defined responsibilities in their involvement in the administration of trade credit practices of the organization. These employees are well informed about the meaning of trade credit which in return keeps customers well informed.
- The collection personnel have well defined individual tasks and responsibilities in regards totheir trade credit practice.
- The receivable manager is expected to follow receivables and seek their timely collection using the standard collection period by communicating with the collection personnel.
- The plan to fully incorporate the compensation plan with the collection personnel's performance to enhance better effort has been issued but still not been implemented accordingly.

Trade credit instruments implementation: -

- Credit policy: - the company has forwarded a written trade credit policy along with individual responsibility during each person's job assignment. Though the standard procedures were being considered, the compensation plan which was designed to motivate the collection personnel to be more involved has failed its implementation.
- Trade credit agreement – the company has its legal consultant to prepare the formal trade credit agreement which is supposed to be used prior to making credit sales to customers.

Unfortunately, inconsistency has been observed when less than 30% of the customers have fulfilled this step.

- Credit insurance – the company does not have any credit insurance.

4.2.3 Problems in the practice of trade credit at Vision Pharma

The company has list of problems and risks that will affect its performance in relation to its trade credit practice.

1. **Receivable account build-up** – the 68.46% receivable account build up mainly signifies capital tide-up for an organization's working capital and exposure of bad debts.
2. **Inconsistent instrument application** - the company has inconsistency in its use of trade credit agreement. In addition, failure to practice the policywhich interlinks the compensation plan with the collection performance has also been observed.
3. **Weak legal stand** – cases with customers dishonoring debt payments and dry cheque mischiefs have been creating hectic mount of workload. Though this is so, the company prefers to be engaged in a conversation with such customers till the final payment is made. This preference aroused from the intention to preserve financially troubled customers' confidence that the company is willing to support them in cases of hard times, which in return will help to sustain the future sales volume.
4. **Undermining competition** - Competitors longer credit period provision as a marketing technique influences customers' behavior in committing to their original agreement with the company regarding debt payment.

CHAPTER FIVE

Conclusion and Recommendation

5.1 Conclusion of the findings

The purpose of this study was to assess the trade credit practices of Vision Pharma, a pharmaceutical distribution company residing in Addis Ababa. More specifically, the study was aimed to describe the actual practices of credit administrationof the company and to identify the associated problems in its practice.

After exhaustive identification of process flows of the trade credit practice of the firm, it has been discovered that the upper and lowerbusiness chains of the company's trade credit are fully synchronized that evaluation and decisions regarding sales and purchase of credit activities are analyzed together.

Centering the sales department in the upper and lower business chain, trade credit emerges through the receiving of orders from customers all over the country. Passing through the inventory department, item lists are sent upward to the management or downward to the dispatching officers depending on their items availability.

Since the financial status and other strategic decision making practices are left to the top management, decisions regarding purchases and other extra ordinary credit provisions are conducted after the receiving of authorization.

After the effect of the purchase of items, existing and new items are dispatched for the purpose of quotation. Quotation prices are then communicated to new or existing customers to deal about the payment terms.

Afterwards, products are packed and door to door delivered through the use of sales invoices to the respective customers. Credit sales are transferred through copy invoices while cash sales are transferred along with the original invoices.

Customers are entitled for two months of credit period on average. The company makes its collection using cash receipt vouchers and posts them in its database simultaneously.

Payments cleared at bank are then used to make settlements of debts for suppliers according to their credit agreements through the use of cheque payment from the company. Accordingly, the trade credit cycle rotates its route in this manner all over again.

Thefinancial stability has given the organization the ability to acquire an image of good management in the industry which provides it with benefits gained from suppliers, customers and also from other stakeholders.

Lastly, the organization has managed to create a good understanding of trade credit among its workers, especially to those who are involved in the practice of trade credit. This gave the organization an advantage to manage its risky transactions with care.

However, problems faced in the practice of trade credit administration of the company have also been discovered. Though the company is well managed and directed towards its primary objective, problems like receivable account build-up, inconsistent instrument application, weak legal actions against defaulting customers, and undermining competitionhave made its growth road bumpy.

Accordingly, implementations of the following suggested solutions are termedhelpful to minimize the company's risks associated with its trade credit practice in the industry.

5.2 Recommended solutions and their impacts

In all the above chapters, the study has tried to cover the details of trade credit administration and its practices at Vision Pharma. The practice of trade credit in the company has few obstacles which have the potential to create financial difficulties. In order to offer appropriate solutions for the above listed problems, here below are the suggested solutions.

1. **<u>Receivable account monitoring schemes</u>**

   As been stated many times over, unnecessary receivable build up ultimately will lead to capital tied up, which in return results in the disturbance of balance of trade credit. Accordingly, the company needs to;

   a. Identify customers with bad payment history to make subjective decision regarding their future relation with the company.
   b. Prepare a financial security for the accommodation of longer credit period granted customers' demands through negotiating with suppliers for longer credit periods.
   c. Make especial agreements with distinguished customers of the company who allegedly are claiming for longer credit period in regards to larger purchase requirements per time period. This will help the company to benefit in minimizing its cost of operation through the economies of scale.

2. **<u>Proper implementation of credit instruments</u>**
   a. Facilitate the implementation of the collection policy and place its enactment.
   b. Trade credit agreement needs to be entered with each customer of the company. These agreements need to be adjusted and modified according to market situation and be renewed before their time of expiry.

3. **<u>Legal stands and decision making approaches</u>**
   a. Take appropriate legal actions against customers who behave in a malicious manner and strengthen its stand towards its.
   b. Each customer needs to be legally liable for the proper and timely payment of their credit purchases.

4. **<u>Competition assessment and analysis</u>**

   One of the major reasons customers hesitate to make timely payment is because they make comparison with other competitors' longer credit periods. This fact can be tackled from two different angels;

   a. Make a market assessment to see the average credit period of the industry and adjust to it, or

b. Make a clear commitment agreement with the customer that the company policy is strictly as stated in the trade credit agreement and that any payment dalliance will have consequences.

Annex

Questionnaire

The following questions have been developed for the purpose of conducting a study onthe assessment of credit administration practices; the case of Vision Pharma. Respondents are free to participate or not.

1. What is your perception about trade credit?
2. Do you apply credit sales to your customers?

   (If your answer for Qn #2 is "NO", you may not proceed any further!)

3. Do you provide credit facility to all of your customers? If no, could you mention the determinants?
4. Is there any limitation as to what extent a customer can have on credit?
   - ✓ If yes, what are the determinants?
5. Do all customers honor their debts on time?
   a. Yes
   b. No

   (If your answer for Qn #7 is "YES", you may not proceed any further!)

6. What is the longest period customers take before honoring their debts?
7. What are most frequent customers' reasons presented for not honoring their debt on time?
8. Do you provide credit facility for customers who do not honor their debts on time?
9. Describe risks associated with credit sales in the company?

I sincerely thank you for your cooperation.

EtsegenetMamo

Interview Question

The following questions have been developed for the purpose of conducting a study on the assessment of credit administration practices; the case of Vision Pharma. Respondents are free to participate or not.

1. What is your perception about trade credit?
2. Do suppliers require preconditions before credit supply provision?
3. What is the average credit period of trade credit the company is granted from its suppliers?
4. Does the company always honor its debts on time?
5. Has the company ever defaulted out of cash shortage in the past five years? If yes, describe in detail.
6. Has the company ever received any external cash funds/loans in the past five years?
7. How much of the company's cost of goods sold is credit financed in terms of a percentage?
8. Describe risks associated with credit purchases in the company?

I sincerely thank you for your cooperation.

EtsegenetMamo

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