

Prevalence of Debtor Control System and Credit Control Policy Utilisation in Small to Medium-Sized Retailers in Polokwane, South Africa

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ABSTRACT The study aimed to establish the prevalence of the utilisation of debtor control systems by small retailers, as well as the effectiveness of such systems in conjunction with credit control policies. The population was drawn from a convenient sample of small to medium-sized retailers registered and categorised as such by the Polokwane Municipality. A researcher-administered questionnaire was utilised to generate empirical data for the study, which was analysed using the latest version of the Statistical Package for Social Sciences (SPSS). The key finding of the survey was that the majority of retailers offering credit to consumers had debtor control systems and credit control policies in place, which they intimated were effective. The importance of both debtor control systems and credit control policies to this category of retailers was also established. Recommendations to improve the debtor control system are suggested.

INTRODUCTION

Retail market saturation and the increasing bargaining power of consumers has led retailers undertaking inherently risky business practices, such as offering credit to their customers as part of a long-term sales strategy. It is not surprising then client debt has become crucial in the retail business sector (Professional Systems 2011). Retailers now view offering certain products on credit to consumers as part of a calculated business strategy for enhancing customer loyalty. However, poorly implemented and managed debtor control systems could be detrimental to a business and pose as a significant risk to cash flow and overall business profitability.

Debtor control systems are managed to ensure a positive relationship between the business' debtors (customers who buy on credit) and the business. With this in mind, it is important to establish whether small to medium-sized retailers operating are utilising debtor control systems to manage their credit customers and if so, whether these systems are effective.

Objectives of the Study

The objectives of this study are to:

- ♦ Determine whether small to medium sized retailers based in Polokwane South Africa uti-

lise debtor control systems and credit control policies.

- ♦ Establish whether debtor control systems and credit control policies are effective in managing the business' debtors (customers who buy from the business on credit).

Research Questions

The following are the research questions to be addressed by the study:

- ♦ Do small to medium-sized retailers in Polokwane, South Africa utilize debtor control systems and credit control policies to manage their credit customers?
- ♦ Are the debtor management systems and credit control policies being utilised by small to medium-sized retailers in Polokwane, South Africa effective in managing retailers' debtors?

Literature Review

According to Dadabhay (2012), it is common for small businesses that in their business life-cycle that they grant their customers credit, with at least 40 percent of retailers offering their customers credit terms. Credit sales are inevitable in modern business in order for retailers to meet growing competition and the attraction and re-

tention of customers. However, as Kaleb (2009) warns, in uncertain financial times and financial crisis situations, retailers must control their debtors to mitigate the effects of non-payment by debtors as this improves the chances of payment for retailers. Retail undesirable debtors may according to Fite (2011) be categorised into four distinct groups. These are:

- (1) Slow payers: these are debtors that are habitually behind on payments. Slow payers require gentle, frequent reminders to effect payments.
- (2) Debtors with the ability to pay but unwilling to do so: these are debtors that are savvy at using credit and avoiding payments. These debtors need firm reminders that their debt is due for payment
- (3) Debtors willing to pay but with no ability to do so: these are debtors that do not have the resources to honour their financial obligation. These debtors need the empathetic approach with structured long-term payment plans
- (4) Credit criminals: These include habitual offenders and fraudsters.

If a business sells products and services on credit it is imperative to have a systematic credit control policy to ensure prompt payment (Michael 2010). In order to effectively identify and manage the fore mentioned debtors, Louise (2010) suggests that businesses need an effective system to manage and control debt throughout the credit sales process. Morris (2007) goes on to ascertain that debtor management is at the heart of all business. A good debt management system (credit sales policy) results in enhanced operating efficiencies, effective billing procedures and prompt credit sales-related dispute resolution. This in turn means less time is required of retail managers in terms of administrative support for debtor management and processing allowing managers to focus on key strategic issues (Morris 2007).

Credit sales have both costs and benefits for the consumer and the business. What represents a cost to the customer represents a converse benefit for the retailer and vice versa. For instance, while it is convenient for a customer to buy on credit when out of cash, the retailer as a benefit has the liberty to add a predetermined interest rate on credit balances, and while credit sales increase sales volumes for the

retailer, customers often end up buying (University of Illinois 2012).

METHODOLOGY

The empirical part of the study was conducted as a quantitative enquiry aimed at establishing the prevalence of debtor control system utilisation and effectiveness respectively by small to medium sized retailers operating in the Polokwane Central Business District. The quantitative approach to research was suitable for the study as it generated to required statistical data to ascertain prevalence and effectiveness of debtor control systems in the area through frequencies which could be further quantified in the form of cumulative percentages with reference to the sample population. Non-probability convenience sampling was employed to establish the final sample frame and population. All small to medium sized retailers registered and categorised as such with the Polokwane Municipality and located in the Polokwane Central Business District (CBD) qualified to be part of the study. Ultimately the sample population was $n=17$ businesses, from which one individual responsible for the financial aspects of the business was interviewed as part of the data generation process.

The survey method to data generation was adopted for the study, with the traditional researcher-administered survey questionnaire made up primarily of closed questions, as the data collection instrument for the study. Data was checked and analysed using the Statistical package for Social Sciences (SPSS) and presented in the form of descriptive statistics (frequencies and cumulative percentages).

RESULTS

This section of the paper presents the results of the survey conducted. The response rate for the study was 100 percent as all sampled participants approached by the researchers to participate in the study agreed to participate.

Demographic Profile of Respondents

Table 1 summarises the demographic profile of respondents. The survey population was comprised of 11 males (64.71%) and 6 females (35.29%), with the majority of respondents (47.06%) being aged between 31-35 years of age. The remainder of respondents were aged

<25=5.88%, 26-30=17.65%, 36-40=17.65% and >40=11.76%. The majority of respondents possessed a Diploma/Certificate (35.29%), while 29.41 percent, and 17.65 percent of respondents possessed bachelors, Grade 12 or equivalent and post graduate qualification respectively. The majority of the survey population were the owners of the retail business in question (41.18%), while 29.41 percent, 17.65 percent and 11.76 percent of respondents were the designated finance manager, accounts clerk or business administrator of the business respectively.

Table 1: Summary of demographic profile of survey participants

	<i>f</i>	<i>Cum %</i>
<i>Gender</i>		
Male	11	64.71
Female	6	35.29
Total	17	100.00
<i>Age</i>		
<25	1	5.88
26-30	3	17.65
31-35	8	47.06
36-40	3	17.65
>40	2	11.76
Total	17	100.00
<i>Academic Qualifications</i>		
Grade 12 or equivalent	3	17.65
Diploma/Certificate	6	35.29
Bachelors	5	29.41
Post graduate	3	17.65
Total	17	100.00
<i>Position in Organisation</i>		
Finance manager	5	29.41
Accounts clerk	3	17.65
Business administrator	2	11.76
Business owner	7	41.18
Total	17	100.00

The majority of respondents possessed a Diploma/Certificate (35.29%), while 29.41 percent, and 17.65 percent of respondents pos-

essed bachelors, Grade 12 or equivalent and post graduate qualification respectively. The majority of the survey population were the owners of the retail business in question (41.18%), while 29.41 percent, 17.65 percent and 11.76 percent of respondents were the designated finance manager, accounts clerk or business administrator of the business respectively.

Summary of Survey Results

Table 2 summarises the survey results on the utilisation and effectiveness of debtor control and credit policy respectively. As a result of the survey it emerged that the majority of the businesses surveyed sold their products to consumers on credit (88.24%), while 11.76 percent of businesses surveyed did not offer their customers products on credit. It also emerged that most of the businesses that offered credit sales were paid by their debtors on time (52.94%), while the minority indicated that they were not paid in time (35.29%). 2 businesses in the sample did not offer credit to customers (11.76%).

58.82 percent of the businesses surveyed indicated having a professional debtor management system, while 29.41 percent did not. Similarly, the bulk of respondents (58.82%) found the systems to be effective, while the remaining 29.41 percent did not believe that their current system for debtor control was effective. Most businesses surveyed (88.24%) indicated having a credit control policy in place, while 11.76 percent of businesses indicated not having one in place. The majority of businesses that had a credit policy at the time of the survey were of the opinion that their credit control system was effective, while 17.65 percent were of the opinion that it was not.

Table 2: Utilisation and effectiveness of debtor control and credit policy

<i>Variable</i>	<i>Yes</i>		<i>No</i>		<i>Not applicable</i>		<i>Total f</i>	<i>Total %</i>
	<i>f</i>	<i>Cum %</i>	<i>f</i>	<i>Cum %</i>	<i>f</i>	<i>Cum %</i>		
Do you sell your products on credit?	15	88.24	2	11.76	0	0.00	17	100.00
Do your debtors generally pay in time?	9	52.94	6	35.29	2	11.76	17	100.00
Do you have a professional debtor management system?	10	58.82	5	29.41	2	11.76	17	100.00
If yes, is it effective?	10	58.82	5	29.41	2	11.76	17	100.00
Does your business have a credit control policy?	15	88.24	2	11.76	0	0.00	17	100.00
If yes, is it effective?	12	70.59	3	17.65	2	11.76	17	100.00

Table 3: Perceptions of the importance of debtor control systems and credit control to a business

Variable	Not important		Can be done but not important		Important		Very important		I don't know		Total f	Total
	f	Cum	f	Cum	f	Cum	f	Cum	f	Cum		
In your opinion is it important to have a debtor control system in your business	0	0.00	1	5.88	1	5.88	13	76.47	2	11.76	17	100.00
In your opinion is it important to have a creditor control policy in your business	0	0.00	1	5.88	3	17.65	11	64.71	2	11.76	17	100.00
In your opinion is it important for a business to have terms of trade	0	0.00	0	0.00	5	29.41	9	52.94	3	17.65	17	100.00

Table 3 summarises the results of the opinions of the respondents with regards to the importance of debtor control and credit control policies in the retail business. When asked on the importance of a business having a debtor control system, most respondents (76.47%) were of the opinion that it was very important, while 11.76% and 5.88% of respondents did not know, believed it was important and believed it could be implemented but was not important respectively.

Most respondents (64.71%) were of the opinion that a credit control policy was important for retail businesses, while 17.65 percent of respondents did not know and 5.88 percent felt credit control policies in a business could be introduced but were not important. Similarly the majority of respondents (52.94%) felt that it was important for a business to have terms of trade, while 29.41 percent and 17.65 percent believed it to be important or did not know respectively.

CONCLUSION

As a result of this survey this paper concludes that most small to medium retailers based in the Polokwane CBD of Limpopo Province of South Africa offer customers merchandise on credit and have effective debtor control systems in place. Just over half of debtors managed to pay retailers on time for goods merchandise purchased on credit raising some concerns on the ability of consumers to pay for the products they purchase on credit. The survey also established

that both debtor control systems and credit control policies were very important to retail business, as are terms of trade.

RECOMMENDATIONS

As a result this paper recommends that that small to medium retail businesses in Polokwane continue to utilise effective and efficient debtor control systems and continue to implement their credit control policies, especially given the findings that generally just over 50% of debtors manage to pay retailers on time. The individual store credit control policies may need to be constantly revised according to nation legislation development especially the South African National Credit Act, hence it is recommended that managers responsible for debt and credit control keep abreast of current policies and national legislation. Further (qualitative) research is also recommended to explore the marketing related opportunities and financial management challenges that selling merchandise on credit to consumers pose for small to medium-sized retailers in the area.

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