

The Effects of Financial Failure in Business Inventory Management

Mehmet CİVAN

Asst. Prof. Dr., Gaziantep University, Faculty of Economics and Administrative Sciences
Department of Business Administration
mehmetcivan27@hotmail.com

Faruk DAYI

Research Assistant, Gaziantep University, Faculty of Economics and Administrative Sciences
Department of Business Administration
fdayi@gantep.edu.tr

Abstract: Global competition increases, inventory management businesses on the importance increased. Goods and services to sell in the global market, the unit costs low, the production efficiency is need to higher..Stok management, raw material supply whether manufactured and offered to customers are far, production and distribution activities is fundamental. The amount of inventory the company's total assets 40% to 60% in the thought, the investment in a significant portion of the inventory allocated to the will see. Especially, in trade businesses inventory, is majority of the balance sheet active. In the industry businesses the fixed assets ,investment is well ossified in inventory that will see. That in a state enterprise liquidity is insufficient and receivables collected in both high-cost inventories disposal are challenges. Daily operations to meet cash asset management could not, pay their debts to be forced, commercial reputation damage to the liquidation or even bankruptcy process go through a process to enter will result.

Introduction

The amount of inventory, 40% of the total assets of businesses to be between 60% and is considered, a significant portion of investments allocated to inventories will be observed. Connected to the large amounts of money from inventories, short-term debt funding may be provided by increasing the rate of inventory turnover. The company failed financially, the inventory turnover rate is low, the lack of sales will result in the desired level, so businesses will experience liquidity problems. Financially failing companies, the financial measures taken unable bankruptcy to go a long to enter the business to invest in the shareholder losses, and direct the national economy of full employment to reach defended. economic state that is strong businesses, this negative situation that much is not affected unlike grow more powerful as the crisis are .This study will examine the subject of inventory management and financial failures, business failures fall into the cause of the factors to be investigated.

Financial Perspective to Inventory Management of Businesses

In business inventory management major makes many reasons. Especially in business inventory investment is considerably high, usually ossified investments and consisting of a very high cost. Especially manufacturing and trading companies operating in the subject of the inventory represents that we think the presence of a large portion of the inventories has created to see. Companies inventories is more than ease of delivery to customers in the business as a result. But high inventory costs will endure.(Okka 2009:657-658) Two main purposes of inventory management in have enterprises.It's work both necessary and sufficient to sustain the provision of inventory and inventory to be taken for ensuring all the stages of the inventory holding cost is the lowest level(Okka 2009 :657-658).While investing in inventories in companies that it is important to pay attention to two issues.

Investment in Inventories

Inventories have very important current assets in companies with a share.Operation equipment, raw materials and supplies,work in process and finished goods inventory management are the most important items. Inventories of companies shows diversity that it had been active in the sector depends and kinds of business. Some sector, excessive inventory investment , when it should, and some inventory-free or low inventory keeping

policy can be watch. Companies inventory the optimal amount of more than investing the profits in a negative way will affect. (Ceylan ve Korkmaz 2008,318-320). Businesses must be sign in terms of inventory management policies are determined, the firm's market share and target what is determined to be the financial terms of inventory investments, both positive and negative aspects of evaluating the investment amount. Negative inventory investment or business, many expenses can lead to well be forgotten.

The results of Insufficient Inventory
1.The sales fall
2.Market loss
3.Customer loss
4. Decrease in profits
5.Injury to reputation in the sector

Table 1: The results of Insufficient Inventory

Level of Raw Materials and Products in Inventory

Raw material inventory is been affected first-degree factor is future production plans for next year's planned production degrees. Company decided to increase the amount of production for next year it will need to increase the amount of raw material purchases (Ceylan ve Korkmaz 2008,320).Raw inventory determines the amount of another factor is the production seasonality specialize.Furthermore, in products shows seasonal fluctuating , production by the amount of precautionary inventories.That well as price increases, natural factors, delivery time, global competition and also taking into account sufficient material can be quantified. (Ceylan ve Korkmaz 2008,320). Businesses have for sales of inventory level in a positive relationship. Production volume occur can be reflect in the future any changes to sales figures. But Demand amount of any increase can't to meet supply. Those well vogue does not exceed, in each period will be demanded of the goods or inventory in the It is possible (Ercan 2008,305-308).

Cost of Inventory

Business occurs investment in inventories for the expenditure of large. This reason to manage inventory with the lowest cost of total inventory cost is minimum will be required to achieve optimal inventory levels.

Cost of Keeping Inventory

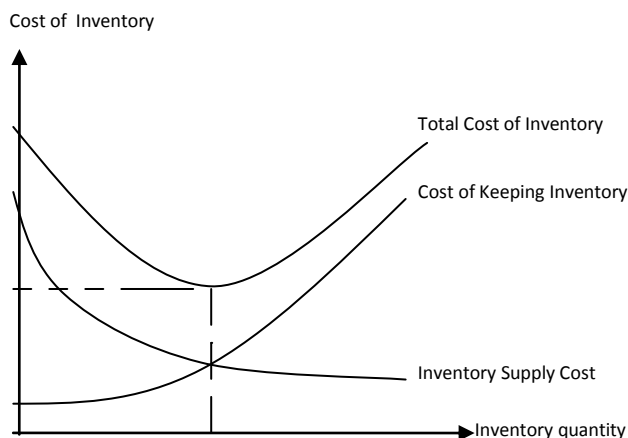
Inventory held in the raw materials,work in process and finished goods to be kept and maintained due to incurred. Stok keeping costs, storage costs, heating and lighting costs, transportation costs, wages, insurance, taxes and outdated goods, waste and corruption costs occurs.

Inventory Supply Cost

Shipping occurs costs referred to as the inventory supply costs, the order granting inventory enterprises reached until the last every stage of the costs from the sum. Order given the phone calls, office expenses, bank EFT costs, discount incentives, not benefiting, warehouse transportation and other expenses ordered, the cost creates. .(Okka 2009:660).

Cost of inventorys not Include

It is expenses of inventory keeping arise. Can not be held sales lost by the sale amount, deprived of the profits, customers, such as loss expenses. Because of business in terms of incurred these costs in the industry and market reputation to decrease, the brand value to fall also may result.



Shape 1: Determining the optimum inventory level

Financial Failure in Business

Definition of Financial Failure

Financial failure is known that describing in different terms. Financial business end of the mission has to carry out their activities. (Aydın and others 2007;444). Looking from another angle, the business can not provide cash flow is also another dimension of financial failure. (Wruck,1990;425). The current period as a result, businesses can not pay debts, are faced with the problem of liquid in a technical sense(Gönenli,1994;647). Many companies fail to define the terms we want to use. According to Altman, financial failure by the insolvency, bankruptcy and is unable to pay on time(Altman 1983;3-6).

Causes of falling into financial failure

Businesses, technology, market, product diversification, cost structure and especially the consumer behavior impact of their financial terms to the many problems facing. As well as business administration and director of the inadequacy can of the company's business environment to adapt fail. Because of production volume falls, sales declines and losses leads.

Causes of Financial Failure In Business

One of the reason those are Professional non-managerial positions, excessive and irrational borrowing, cash flow is planned absence, insufficient liquidity, budget items necessary diligence is not shown, savings policy is not followed, particularly cost accounting data by managers neglect, or enough of no business in the financial failures. As our daily competition environment is considered to be high, as the company continues to operate, improve profitability in a competitive environment must be suitable for the use of financial resources. Another factor affecting the financial failure is financial leverage. Financial leverage, external and equity resources of business, resource and quantity of the substance from which mainly shows how much a financial instrument should be used. (Erol 1999;156-157). Own resources can not be open to be allocated to enterprises, with public debt as possible to cause any problems because the future. Companies bonds useful, financial bonds for his use of such debt instruments or loans from banks or financial institutions to supply foreign sources are provided. Loans to firms optimum level to a very rational, and the business growth and market competitiveness will increase, and provide continuity in terms. But businesses will meet big problems ,if they do not use their debts in reasonable places. For example, business uses of the loans financing the timely payment fails, bankruptcy go through a process will enter.

Businesses within the required accounting controls is not made, cost accounting enough benefit can not be operating in a knowledge processing and dissemination should be the system's establishment of no-budget preparation flexibility of no and extraordinary circumstances budgets does not contain accounting information system failure caused by financial failure are the causes.

Another dimension of the business in terms of financial failure of the timely collection and payment. Companies hitches can not do debit payments for the production. This result, could not obtain the necessary raw materials for production will be reduced. Without disrupting their activities, the liquidity position of businesses to improve profitability, cash inflows and outflows should also take into account the planning.

Out of Business Reasons in Financial Failure

In the economy liquid cash cycle by increasing ,the country's economy development is, increases with income, employment and especially the production. The economy revival and development of enterprises' financial structure to strengthen contribute important. National revenue structure, the inflationary and dezentflasyonist trends, economic policies, macro-economic indicators to the national economy that additives that affect the financial success of companies are among the primary factors. (Dinçer 1996:53,Eren 1990:70-71). Of these, as well as technological innovations and developments for business carries critical. New production techniques wiil reduces, production costs, reducing the innovations do not make the business cost of any of the relative increase their competitiveness. As we today global economy, the unit cost of profitability rather impressed it is considered that the activities continue with the company, particularly the costs of businesses that are reducing the minimum level.

One of the most important factor in business is technology. Technology for the business required of all information, communications quickly and cost-effectively be provided. global economic have units to reduce costs, consumers need to answer to, most importantly, profit and profitability to increase information for the operating system for businesses vital. Technology processes to operate large deals in may provide, may also reduce the risk of assets. (Dinçer 1996:51). Technological innovation, practicality and speed. information businesses operating system can be used effectively in competition with businesses, cost leadership may pass to the front of many businesses.

Measures Towards Improving the Financial Status

Financial structure deteriorated and unable to meet payment obligations on time, to strengthen the financial situation in enterprises for a number of measures to be taken. companies measures are grouped under four main headings.

Strategic Measures

Future uncertainty is high today, it is impossible that companies effectively operate in the planning and implementation. Today's businesses is quite complex with a structure is also considering, business management strategy, the determination of its financial condition empowering nature pay attention. Economic failure to prevent the need to be strategic measures following as can be sorted (Aydn 2007;451-453);

- Making Swot analysis and take preventive measures
- Making medium-and long-term by following the developments on the economy
- Identifying the market targets according to product groups, accordance with the management plan

Precautions to be Taken in the Field of Costs

The extension of debt maturity

The cash management business for the future if a serious obstacle facing temporary financial problems, the firm's debt maturity, is extended by creditors to supply funds to businesses would be given the opportunity. Because when the management contacts with enforcement, it will be receivables to collect performance fees. Beside this thinking that it could not take a large portion of the charge, this could not claim most of charge. Improve companies receivables net charged availability, debt extension in the financial situation for the future promising enterprises, the creditor company in terms of rationalization would also owe the business picked himself up to the opportunities provided, and thus happens the business liquidation or bankruptcy in the process prevented. If necessary changes are made in management and the measures are not taken until debt maturities, the event probability increases that management through the out without problems.(Büker,Bayar ve Sevil 2001:420)

Abandonment of claims through a section of the Magistrates

Refer law enforcement for claims to collect from the borrower company, generally a large part of the funds could not receive. Because of management may be cash take a portion of the peace and abandon the rest settle for if both legal lengths and deal does not need to as well as peace through education could amount collected.

Representatives of the firm's receivables by a committee of the Managing

Creditors can be request that the firm's management take the company's financial condition is corrected. Another method is if the entity's management to have a say in financial support. Management that seized the company management keeps control of management until improve financial status, if it could not correct, it helps to entry the process of liquidation.

Capital Structure Reorganization and Strengthening of Capital

Other way to out of the failure for management which fallen to failure and unable to pay their debts, failure to agree a way out with one of the creditors, the amount of claims for money by the business partners to strengthen capital (Büker,Bayar ve Sevil 2001:421).

Those can take that measures for the restructuring of capital;
- Instead of debt giving the capital share
- Instead of bonds giving the stocks
- Taking new share holders
- Reduction of the nominal value of stocks in companies
- Decreasing of bond rate.
- Instead of common share giving preference stock

Table 2: Measures for the restructuring of capital

Fixed assets are sold as Long-Term Renting

Excessive investment in fixed assets if companies did it by selling the surplus, to place a long-term leasing new assets by the method of operating cash needs can be met by renting. Due to leasing, to be a long-term financial management, accounting as expenses and tax advantages, the widely used by businesses.

Fixed assets of subsidiaries and partially or fully translated into the currency

Selling of building, machinery, land and equipment which don't contribute to the management to liquidate, gives management cash conversion, as well as would have been the depreciation expense savings.

The other firms with a company in the United

A financially bleed company merger with another company and revival of the supply of a failed business. Present sector, according to the structure, market controls, or increase profits for mergers or joint ventures to provide management in terms of rationalization can.

Selling of Management Whole or Part

Operational cost is high subsidiaries or affiliates profit loss analysis after sell. But in long-term can be considering the current financial failures will continue this business in whole or in part is sold, rational. Thus failed business hand to issue a business cash flow can be ensured as well as amortization expenses decreased by Significant savings can be achieved in the operating expenses. (Dinçer 1996:175).

Cost Reduction

An important cost area is raw material in management . Raw materials purchases to save on supply conditions improve, in use of waste and waste disposal, inventory costs, reducing some vehicle equipment purchases instead of a bike path to be measures such as cost reduction of the provided. Cost mitigation measures can be summarized as follows;

- If there is a demand narrow or stock oversupply, cost and expense cutting down about producing
- Skilled and talented in the areas of business activities should continue, should withdraw from the areas of poor or weak
- Particularly if the current increases developments in exchange rates, should be cut imports, , raw material needs

to be provided from the domestic market.

- Travel expenses should be reduced
- The budget allocated to fixed assets and new investments should be reduced

2.3.2.10. Liquidation of Companies

Despite the precautions taken, the chance to continue the company's assets is low, the company's liquidation is not the way to go to a compulsory liquidation. Because of business is greater than the benefits to be obtained from the liquidation will be more rational.

Measures to Boost Cash Flow

During periods of financial crisis, businesses must decrease collecting time, recovery time loan maturities and discount for decrease selling inventory costs to get away from losses. One of the most important cash items received orders. Advance receipt and sales or collateral requested as a short-term cash management businesses can relax.

An Effective Financial Management and Planning

Financial management is sensitive external environment and the macro-activities of businesses. Strategic financial with business within the created and the company's current situation, the projected data analysis. Now on and future environment to determine the resulting economic, demographic and social quality of the data analysis and the environment within the company's future to determine and to estimate the financial goals and to identify and navigate the process is carried out(Bengshir,1996:77).

The four basic criterion of financial planning (Sayilgan,2003:295);
1)Investmen fixed asset
2)Working capital
3)Combination of debt and equity
4)How company decision's will evaluate

Table 3: Decision area in financial planning

Effects of Financial Failure in Business

Enterprises' financial structure, shows differences the firm's business activities. Stops asset investments mainly a business, it is normal that debt is more than equity capital in a mainly stop asset investment business. if comparing the value of certain debt and sum of long-term debt is higher, we can say for business "extreme owes". Comparing the long-term debt in excess of net debt and inventories. If companies long-term debt more than inventory this means that the non-cash assets in management are not achieved with debt they are achieved with management equity. Thus business financial failure affect the degree is reduced. Decrease in operating profit to financial failure shows and ultimately leads to inadequate liquidity to as the bankrupt company's failure to operate. Economic effects can be grouped into three headings summarize.

Effects on Investment and financing

In Financially failing businesses management also seen the biggest problem, funds flow enabled. That is result in investments late. Current period of investments can stop .Failure visit businesses in an effective inventory policy execution, raw materials and goods across pay, is caused to spread for debt to maturities. Business financial crisis enters its own receivables charged to, the debts to pay, for the production of essential raw materials, supplies, and these, as well as various issues. At the end effective non-inventory policy block, enterprise inputs and outputs of the amount planned when the realization.If production is not on the time,the sales will fail creases, liquidity of business is getting weak as a result crisis with the effect of the company's financial situation gets worse. Businesses is about financially unsuccessful, investments to influence the existing

fixed assets renewal or a new entity receiving. investment opportunities to be requested before the financial situation improves, and then invest the budget should be prepared, capital or financial resources must be provided.

Effect of Profitability

Financial failure of business in losing of sales is decreasing revenue and the cost is getting more, the company's profitability is decreasing. At collecting troubles, is getting low particularly the receivables turnover. It will be weak its pay. Because of cash cycle is insufficient, the company can not evaluate alternative investment opportunities and failed emerged a small but are deprived of lucrative opportunities.

Inventories and Sales Effectiveness

Inventory turnover, in other words the cost of goods sold is lower than the average ratio of inventory desired sales means the amount could not be reached. Financially troubled the businesses, the sales of a sufficient level, not in a production line to slow down production of the amount of reduction and long-term debt payments difficulties caused. This is well as businesses, the financial crisis in the asset and liquidity management difficulty is the determined sales policy not access because of their strategic goals to achieve are also affected.

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Inventory Turnover and Productivity Effect

Turnover rate is shown the company's sales rate to the average amount of inventory that how many times to meet. The low inventory turnover in enterprises, means that the desired amount of sales can not be reached. Inventory turnover ratio is lower one of the reasons, the business sold to inadequate is the other one too much inventory. Financial failure falls in business, the most common problem is not sales of the desired level in the other receivables charged face in the difficulties are. Financially troubled the businesses, the sales of a sufficient level, not in a production line to slow down production of the amount of reduction and long-term debt payments difficulties caused. The sells insufficient, the collection of receivables be key delays, business liquidity and purchasing power. This is well as businesses, financial crisis manage their assets and liquidity in times of difficulty, because the achievement of designated sales policy and therefore unable to reach their strategic goals are also affected.

Sales Effectiveness

Today's business in the most common questions one of the companies' strategic plans, the targeted sales figures. Companies internal and external factors due to the desired sales figures reach the difficulty the company cash problems. Companies the most important liquid pen is sale revenues. Because of sales desired level of the lack of goods sold cost will increase inventory turnover and sales profitability. inventory management required in the raw materials and finished goods reach the level fail business sales reduce the road. Inventory obtained time effectively not be used as both the sales decline and the reputation of the injury caused. That in a situation inventories to be different can make of the growing inventory of applications and campaigns. Unlike cash management businesses that getting more and more inventory investment will be paralyzed and market share have been determined to block and eventually entered a path that goes up to the bankruptcy will cause.

Liquidity Impact on Business

Businesses at the establishment stage by partners of capital on the basis of the liquid assets first started operating the business of the cash power. In hand of funds, investment products or commercial goods inventory as to be converted, realized sales policy, together with their re-liquid assets into a spin this cycle of business activity to end until. Liquidity asset management firms manage the difficulty that the biggest problems. Cash management and effective planning is not if businesses purchase of raw materials from the tax payment until the costs and spending cash deficiency faced with the problem caused. Liquidity insufficient purchasing advance sale discount to benefit will stop time can not be payments to interest costs caused. This well as taxes and payments will be delayed by the state penal sanctions exposed because of inventory management-enabled not business's cash assets are sufficient to prevent. Indirect to as operating cash management activity on corruption to-day spending can not become, as a result of the liquidation or bankruptcy and go into a process that will lead to.

Conclusion

Connect to inventory without too much money, short-term debt funding can be provided to increase the inventory turnover rate. Financially failing businesses, the inventory turnover rate is low, sales are at a desired level or not will result, thus operating liquidity shortage. Economic failure as a result of businesses went bankrupt, and most employees become unemployed and even creditors, the companies that victims and their cash flows regulated can not, and as a result from this process adversely affected Financial crisis in the business, cash flow chart of the arrangements, their debts to restructure, if possible, debt with stocks for replacements, inert tangible assets to sell, the costs of reducing possible, as well as business management and organizational scheme to modify, the financial crisis at least with loss through will ensure. Although all these measures, if the financial failure is still running, the business financially restructuring, downsizing strategy, the implementation of the rational, non-affiliates or subsidiaries to sell. financial failed businesses restructuring as a result of the current situation for the future bright appear unless the company's liquidation to be investors, both creditors is rational for enterprises with the least harm will withdraw from the market.

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