

Trade Credits and Growth: Survey of Georgian Companies

Metin MERCAN *

Abstract

Goal of the research is to analyze what impact has trade credit to firm's growth. How is perceived trade credit by the companies' management? How trade credit is evaluated by the companies' authorized entities. The research is conducted by survey in the companies' in Georgia, which are using trade credit most often. The result of paper is very essential for academic and real business, because this is one of the newest researches about trade credit in Georgia. Most of merchandise companies are participated to survey of research.

Keywords: Georgia, growth, Trade credit

JEL: G20, G30, G32, G40

Introduction

Trade credit is very important and almost essential element for many companies in business. Trade credit has a long history. It was existed 1000 before birth BC (Christie & Bracuti, 1981). Beside its importance trade credit is not investigated appropriately yet. Willson and Summers (2002) explained trade credit as a legal contract, in which is written agreement between two parties. This contract permits a buyer to purchase a product (or services) can pay for the product or service later. It is a free-financial resource for customer to use trade-credit while purchasing goods on credit. Trade credit is a liability for the company's balance sheet. On the other side of who extending credits to buyer, a trade credit as an investment and appeared new asset on that company's balance sheet.

In many papers, trade credit is considered as a financial tools and companies used it for supporting and decreasing their financial needs (Willson & Summers (2002), Deloof and Jegers, 1999). When a company uses a trade credit it is given a possibility to access external capital. Absence of trade credit, companies need to use external source of financing, which increases the cost of capital (WACC) or internal source of fund, which cause opportunity cost raised. Therefore, trade credit lowers the cost of capital. Ferris (1981) has found that trade credit has a possibility to decrease transaction costs of giving a possibility to firms to pay bills from time to time. To use a trade credit gives a chance to buyers to attempt the quality of the product before payment (Deloof & Jegers, 1999). On the side of unsupported of discussion abovementioned, (Burkart & Ellingsen, 2004; Wilner, 2000) claims that in their findings, trade credit is more costly than bank loans, companies are increasing the purchase price of goods by extending trade credit to their customers.

Hicks (1989) developed a concept of the "representative transaction" to define clearly the essence of a trade credit. Hicks established a Hicks' representative transaction consists of three parts. The first part of representative transaction is arrangements. All arrangements consist a promise to deliver products in one approach and money in the other. The second part of a representative transaction is actual delivery of products or services from the supplier to the buyer.

* PhD, Faculty of Business Management, International Black Sea University, Tbilisi, Georgia.
Email: mmercan@ibsu.edu.ge

The third part of a representative transaction is actual payment by the customer to the seller. In this situation it is very important issue to delivery products or services on time. Also, very important issue is to implement payment by the customer on prompt time. When promises are already, made the sellers are holding a debt to the buyers and the buyers are holding a debt in nominal terms to the seller.

There are different approaches to discuss the use of a trade credit. Authors classified the use of a trade credit as: (Garcia-Teruel & Martinez-Solano, 2010; Martinez-Sola et al., 2014).

- Operational
- Commercial
- Financial.

Firms to get cost efficiency use operational approach of a trade credit. Firms are separating the delivery of goods from payments (Wilson & Summers, 2002). It creates great faith for both parties, buyer and supplier. To use operational approach of a trade credit gives a possibility to buyer and supplier to anticipate product and payment flows. This makes them more flexible to angle to variation in demand (Emery, 1984).

Lee and Stowe (1993) and Long et al. (1993) studied on commercial approach and found that trade credit is very convenient especially for client, which can buy the product, use the product, confirm its quality and then pay it later. In this circumstance a trade credit is a tool to establish a long – term business relationship with customers. Petersen and Rajan (1997) described long term business relationship as a confidence between customer and supplier is always beneficial for companies.

By the financial approach, the authors discuss that due the market imperfections for supplier it is easier and cheaper to access capital. It is more difficult for buyers (Garcia-Teruel & Martinez-Solano, 2010). The authors Biais and Gollier (1997) showed that for many firms using a trade credit gives a possibility to break financial constraints to access capital. It is more difficult to use different funding sources. Buyers are paying for implicit costs of capital financing; trade credit is the best choice, because there are no better and cheaper alternatives yet (Deloof & Van Overfelt, 2008).

There are different approaches and theories about trade credit. Major economic theories about a trade credit and trade credit extension motives for sellers and buyers are:

The main motives, which ensure to grow popularity of a trade credit are:

- *Information asymmetry*: According to this motive a trade credit helps participating parties through the legal trade credit contract to bridge risk of information asymmetry. Trade credits have a possibility to reduce information asymmetry between buyer and seller.
- *Efficiency*: according to this motive, a trade credit is separating exchange of products from exchange of pay.
- *Financing*: financing motive include trade credits' habit to avoid and govern imperfections in financial markets.
- *Investment*: This motive is related to create investments, which will be wealth- creating.
- *Marketing/competitiveness*: this is very important tool, because it includes promotional and price decisions. Marketing's duty is to grow competitiveness and a company's image.

Information asymmetry is focused the buyer's payment intentions. There are impedes because a seller does not know about the intentions of buyers. The company can use these incentives as a tool to identify risk of buyers. Buyer will show their poor finances, when they will refuse an attractive cash discount if they pay early and choose full payment but later.

When a company offers their clients such prompt payment discount policies, it helps the company to identify cash flow problems and reveal on the earlier stage cash flow signals, that need strong monitoring and control effort.

Smith and Schnucker (1993), Petersen and Rajan et al. (1995) defined that there are costs for buyers and sellers when they owe imperfect information. Imperfect information is explained as parties in the contract has not the same and enough information to evaluate risks on a transaction. Customer need to ascertain the quality of the products or services; therefore, they need more information. Besides this, seller needs more information about the client's credit worthiness, risk of default on payment.

Ferris (1981) showed a trade credit has a possibility to reduce payment transaction cost by separating the exchange of goods. Such kinds of separations make various amounts of operating efficiencies and cost improvements (Emery, 1984). Delivery payments, especially when payments are frequent are extremely inefficient practice for the greatest number of firms. Operating inefficiencies appears for larger companies, because their buyers are making payment transactions for each delivery, instead to make a single payment transaction for the whole month's delivery.

Stowe and Gehr (1985) found trade credit is a valuable instrument for both a supplier and a buyer. A trade credit if it be used effectively will support to firm to grow. A trade credit also plays significant role through improvement the supply chain management and reducing payment transaction costs.

Franks et al. (1998) and Schwartz (1974) explained that efficiency motive is related to short period of credit, but financing motive has connection to a long period trade credit. Ferris et al. (1985) considers that trade credit is not an instrument of trade much more, as it becomes an instrument of finance. The firm who increases long - term trade credit becomes a financial intermediary who creating interest-free loan. A trade credit is seen as a short-term loan between seller and buyers.

In another research, Lewellen et al. (1980) explained that a consumer has a possibility to borrow from financial institutions, using goods as collateral and pay the interest rate in perfect competitive. As a cause of asymmetry of information and different costs of transaction, borrowing money from bank are not attractive for buyers and even for sellers. Debt costs are lower for seller, than for banks, to offer credit. The reason is that information gained about products and services and selling process gives the seller specialist knowledge. Sellers have special contacts with customers. Schwartz (1974) argues, that the firms who are profit maximizing and has a possibility to access easy to money markets, are motivated to "sell" monetary resources through credit terms, to companies who are limited to acquire funds, but have productive investment opportunities. Thereby big companies are ensuring to growth customer market.

As a result of finding in Laffer (1970), a trade credit is a part of money supply. A trade credit is considered as an instrument for granting small or mid – size companies, which are the higher risk group financial institutes. A trade credit is good mechanism for relocating money from big strong organizations who have good financial situation to companies who have finance deficient

When a company knows their customers, it can forecasting anticipate cash flow. To conduct precise forecast, it is necessary to survey your customer's payment experience. This will eliminate risks of cash balance deficiency. When companies are small and younger, they have no enough experience and knowledge to investigate customer's behavior about trade credit payment. So, such companies are standing under the higher risks to get cash balance deficiency.

From above discussion, we can establish five financing propositions:

- Customers consider a trade credit as a cheap source of finance. They prefer to use a trade credit, then go to bank and borrow money to make purchase.
- A trade credit is attractive for the firms, because they can grow helping trade credit more cheaply.
- A trade credit is important source for the firms who have limited financial funds. A trade credit plays intermediate function from the big strong firm to the small and weak companies.
- Sellers have more information about their customers, they know what trading position has a customer. In this situation for a seller is less risk to give a trade credit to the customer, than if a bank gives a credit. Banks has no so detailed information about customers.
- To get a trade credit is very convenient for customers, because its payment system flexibility. When a customer is not required to pay a product or service's price at once it gives advantage to the customer to use this money in other situations, makes investments or implements other activities.

Neale and Shipley (1985) and Emery (1988) studied on investment motive and found that Investment motive is related with the financing motive. The main goal of the investment motive is to create wealth-creating selling opportunities each sale of products or services is one independent transaction, thereby it creates short – term asset management's perspective. Another research by Capeland and Khoury (1980) consider that trade credit should be perceived as an investment than the passive result of sales. Trade credit is an investment because the seller has an advantage to offer a higher price, when he/she is offering credit terms. Sellers almost always have implicit interests to customers when they offering them trade credit and delayed payment. Reichheld and Sasser (1990) discovered that it is not common that customer defection rates experience is 15-20% each year. When companies are offering generous credit terms, it creates a valuable tool to reduce dissatisfaction of customers and increase their loyalty.

When sellers are offering to customers trade credit, it is a signal, that the seller is ready to establish long – term relationship with the customers (Smith, 1987). It is common practice for companies to demand cash or on delivery for new customers, which are not known for companies. If companies have information about their customers, it is easy for them to determine effective price payment condition. When trade credit's payment condition is very convenient for clients it means that the seller wants to have close relationship with their customers.

From the above discussion we can establish four investment – drive motives to use trade credit:

- A trade credit is an investment, which is helping to improve product or service competitiveness.
- A trade credit could be viewed as a short – term investment in the customer's business.
- A trade credit is an opportunity for clients' business to create continuing and long – term investment.
- A good trade credit offer condition is signal for customers that the seller wants to establish on – going relationship with customers.

A trade credit's marketing and competitiveness motives are very important for sellers, because a trade credit is a tool for seller to sell products or services easier. A trade credit aids marketing and promotion to sell products or services by various ways. A trade credit helps marketing and promotion to stimulate demand (Ingves, 1984). The reason why a trade credit is attractive for customers and why it is helping for marketing and promotion is an opportunity of the seller to differentiate its product payment offering from the competition.

Kaplan (1967) was the first scientist who was arguing that a trade credit's function was not just financial function and it was a tool for promotion. The explorers Shipley and Davis (1991) approved this opinion by their empirical support.

They have found that for a trade credit offering condition for supplier the most important selection criteria are price, quality of products or services and delivery. When a trade credit's offer is flexible for customers it supports customer's loyalty.

There are some industries where are used trade credit very significantly. These kinds of industries are using a trade credit during off – peak demand to maintain customers' purchases. This is regular practice for them. Another instrument for sellers to use a trade credit as a part of their pricing policy is prompt payment discounts. In this situation a seller offers to customer's price discount if they pay on time.

Banner (1957) defines a trade credit can be used to grow companies' competitiveness and corporate image. If company wants to obtain normal reputation and market competitiveness it is necessary to establish a normal trade credit term. If industry is highly competitive, it is very big mistake to offer generous payment terms to customers. This type of activity will damage business and thereby diminish shares holder value. Basically, large companies which have powers on market are not offering to their customer's very generous credit terms or discounts. When the company has a great image, it does not need discounts to pay customers' attention. If large company offers to their customers such big discounts, this will suspect shareholders to the company's financial situation. Small companies, who are beginners, use large discounts and generous credit terms to attract customers.

A credit period has an opportunity to increase corporate image, build goodwill and make customers more loyal to the company. A company's corporate guidelines and procedures about debt, which are fulfilled by the company have a direct influence on customer satisfaction. A company should establish effective guidelines and procedures about debt. We should notice that if firm deserve "bad payers" reputation, it will have bad results not just credit management alone. In this situation, there are danger for the company that customers will choose other company. When a company has not proper reputation it reflects on demand of this company's product and services.

Methodology and Results

The aim of the research is to analyze trade credit impact of company growth and effectiveness. Beside this, result of current paper also identifies the main problems related to a trade credit in Georgia.

Based on trade credit literature described paper, the research result are driven for survey which are distributed to company's decision makers who are responsible to extend credits to customers. Survey were sent to 60 leading companies that are offering trade credit to clients. Response result is 50 out of 60 companies. From 50 interviewed 42 were male and only 8 were female authorized persons.

Based on the theoretical context the following hypothesis are developed

H1: If companies offer to individual customers trade credit, their companies will become more profitable

H2: If companies offer to their customer's long period to pay, their product bill be more demanded

H3: offering trade credit to customers has an impact of growing companies.

H4: Trade credit helps companies to create regular customer base.

H5: Using trade credit is significant to as suppliers as customers

Figure 1 shows the turnovers of companies in the survey. Most companies are medium-sized companies. Companies which annual turnovers are more than 1 000 000 are only 4%. Turnover of Georgian companies are considerable lower that many other researchers used in their research

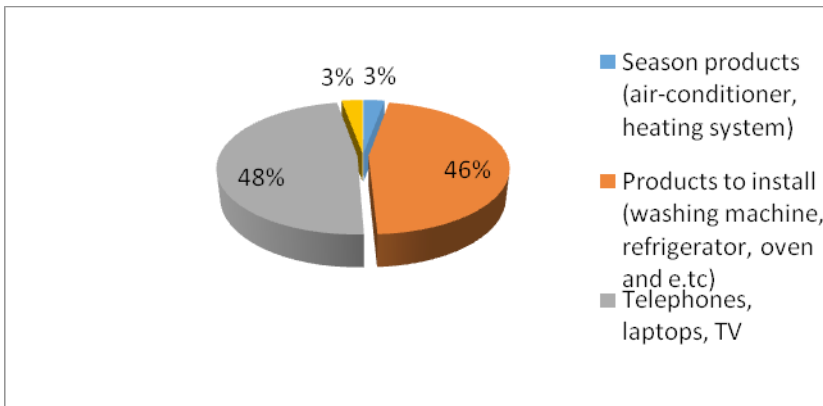


Figure 2. Demanded Products

Figure 2. Illustrates the 46 % of demanded products are washing machine, refrigerator, oven and e.tc. That is mean that customers' needs to purchase with trade-credits through getting loans from banks. These products are not affected by seasons. In contrast, demands seasonal products such as air – conditioner, heating system are fluctuating more. Products such as mobile phones, laptops and TVs are also demanded and more popular, customer more prefer to buy these products by installment or trade-credit. Another category of products according to Figure 2 are sport technics, medical machines, musical machines e.tc. The demand of such kinds of products is not great, therefore there is no wide variety of products in this segment.

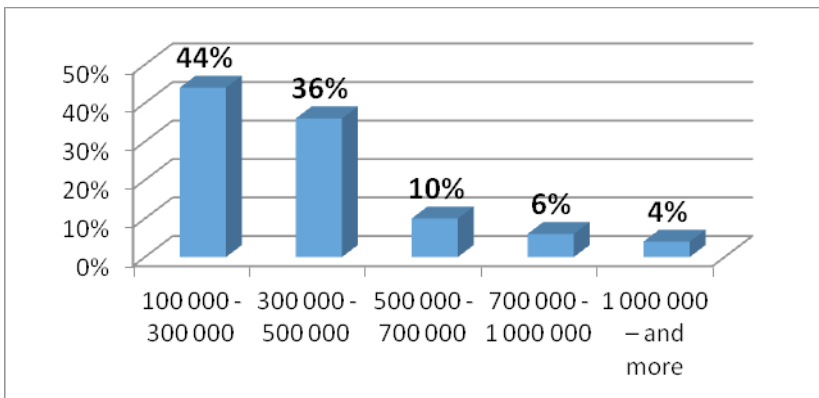


Figure 1. Annual Turnover

Figure 3. indicates that companies' growth is stabile medium. 5-10% percent at the annual growth rate according to replies of 38% of interviewed in the survey. The result indicates that it is acceptable rate is good indicators in the condition of competition, 0-5% percent growth of companies shows that they have some problems through the management and marketing point. Also, Figure 3 noticed that companies which have low level of growth are reluctant to offer a trade credit to customers. Mostly they are begging to offer credit to customers after a few years of operation when it is effective way of boosting sales. The companies, which have a firm growth from 10 to 20% have offered a trade credit to their clients from the starting point of their business. They are considering that a trade credit appeared very significant and had a significant influence on company's revenue growth.

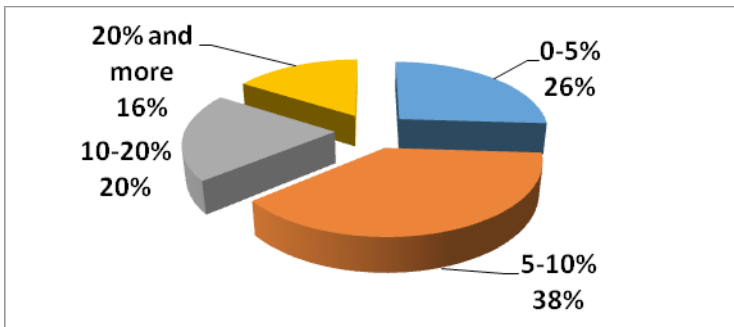


Figure 3. Growth of Companies

As the Figure 4 shows the reason companies are wishing to offer credits to customers. 50% percent of responded companies' manager determine the share of credit sales are ranging from 70% to 90 %. This include not only include trade credit offered to commercial companies also includes trade-credit offered to individual clients. Figure 4 also depicts the increasing number of people involving in trade-credit while to purchase products. Also, 28% of managers state that 50% to 70% of sales are incurred in installments or trade-credit. It is clear that in the absent of trade-credit, sales of companies will decline so dramatically. Offering a trade credit has a big impact on the demand of the company's products or services. This is shown from the survey that offering a trade credit and an installment is attractive to customers and they are buying products even then they don't need them.

Figure 5 shows extending credits has a positive relation with customer loyalty. This is important for companies. 70% of companies declare that customer loyalty is core point for success of a company and a trade credit is great tool to build customer loyalty. It is sure that a trade credit is very good tool to build customer loyalty, as other companies are also offering credit to customer which enhance competitive pressure on companies, as a result of it companies are getting offering a better credit to their customers. Therefore, companies consider this tool as moderate important.

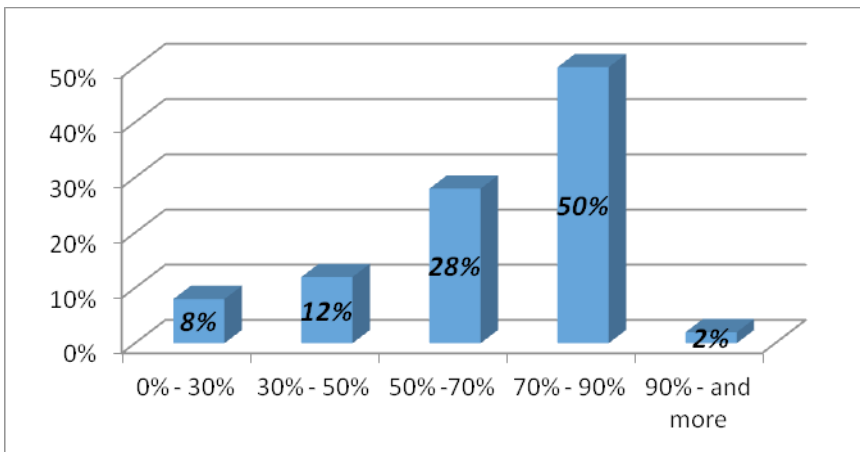


Figure 4. Credit-Sales and Amount of Sales in Installment

Another indicator, Figure 6 depicts that company's relations with customers deteriorate as companies decrease the extending credit to customers. Therefore, trade-credit is playing the key role in building customer-relations. 32 % of companies believe that customer relation will be moderate effected in the lack of trade-credit.

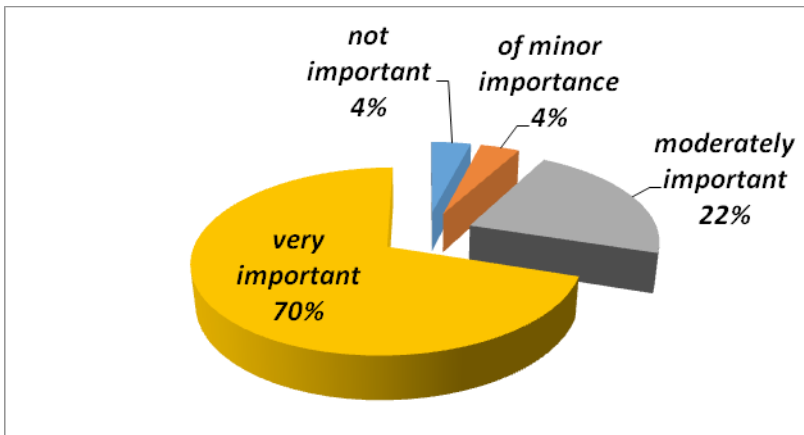


Figure 5. Customer Loyalty and Trade-Credit

Figure 7 illustrates that companies will have difficulties to maintain high quality customers. It shows that customer is preferring to buy with credits or in installment even they can afford to buy in cash. As theory in literature review indicates, trade credit is used to measure quality of products. Especially, when high quality customers are buying lots of production, they need warrant period to approve that these products have high quality. 28% percent of interviewers said that it is moderately important to offer trade credit and it has no influence to relationships with their clients. This is an occasion when high quality clients and a company has very close relationship and they are trusting to each other.

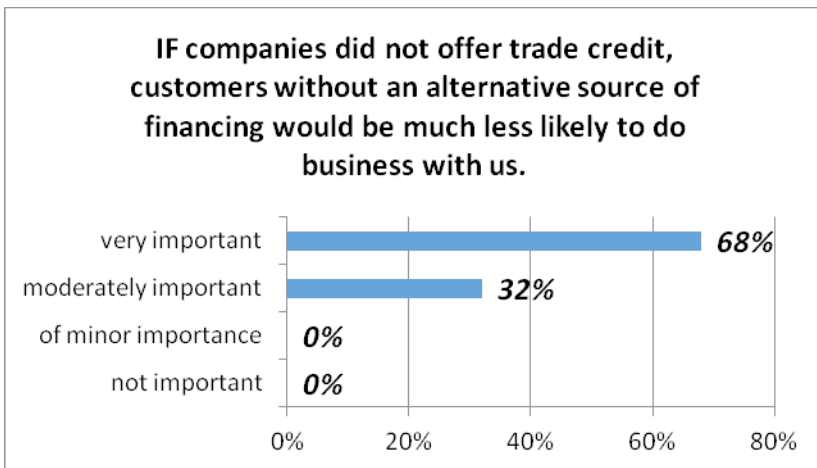


Figure 6. Trade Credits and Doing Business with Companies

In such situations, offering trade credit has no so high importance. However, we should notice that such kind relationships are very rare in our reality.

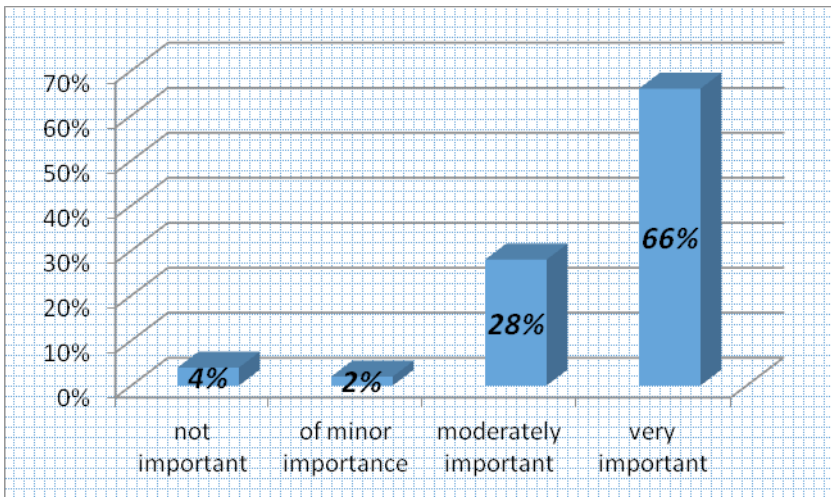


Figure 7. Relation with Trade Credit and Quality of Customers

A trade credit has significant effects on attracting customers. It is a factor to maintain a long relationship with customers. Figure 8 also proves the sustainability of future sales with trade-credit if it is managed effectively (64 % of response says it is important). Companies have more incentives to offer a trade credit to their clients, because otherwise they would go to bank to take a loan. Bank loans cause cost of product price increase and requirement needed to get a loan are not much convenient for many customers in Georgia. So, offering a trade credit is solution for this problem. Although, there is one big problem related to a trade credit practice in Georgia. The problem is that many companies are reluctant to extend credits to customers, that also make banks necessity in trade for individual customers to purchase products. Because it is too risky to extent credits to customers by companies, the process continues as customer gets credit simultaneously as they buy products. This is increasing the cost of product for individual consumers. However, it would increase companies' benefits, if they offer a trade credit to individuals. This is consistent with results of many researches presented in other countries.

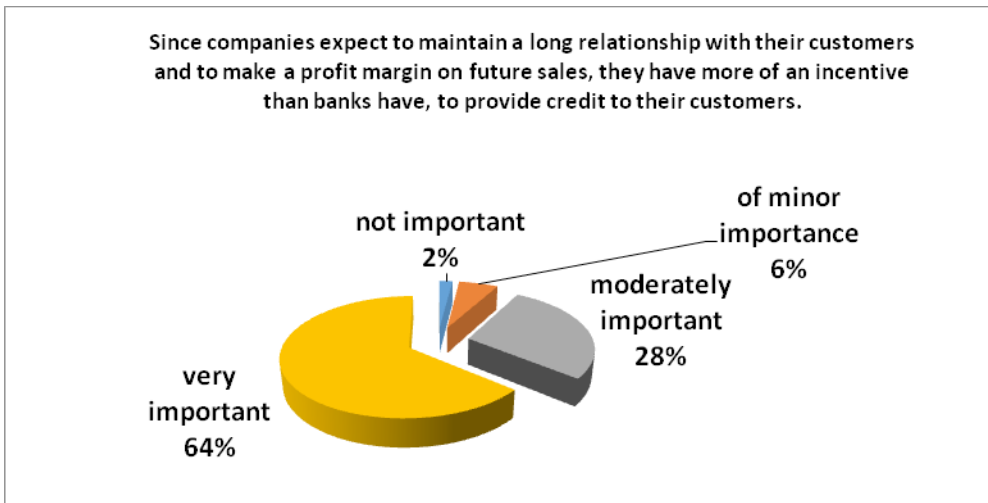


Figure 8. Effect of Trade-Credits on Future Sales

There is wide practice that companies are trying to offer to their clients something different from their competitors. Figure 9 indicates that company's response to competitors' decisions, as 56 percent of companies believe it is important to follow competitors' decisions. As companies replicate each other activities, new product or service development are losing its attractive for driving customers. In the result of survey, interviewers had noticed that they are observing

treatment of their competitors and then analyze competitor's decision to follow or not.

Offering trade credit has big impact on the demand of products and services, which make forced other little companies with weak financial opportunities to offer trade credit to their clients. When market and industry is developing if a company is not following to this development, it soon will be eliminated from the market.

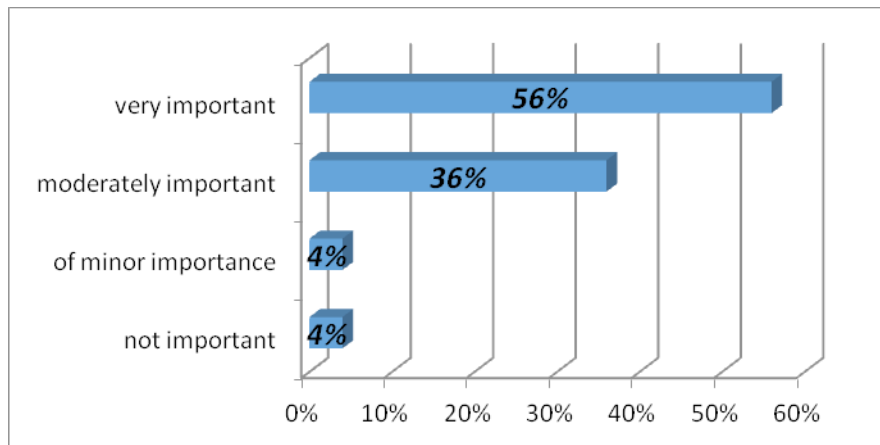


Figure 9. Companies' Attitude to Offering Trade Credit by their Competitors

56 percent of companies in Figure 9 in the research confirm that they are repeating new offers and conditions from their competitors and it is very important issue to be always in tonus. 36% of them indicate that observing and repeating their competitors' offers have moderate importance for their companies. However, such companies are not big player in terms of revenue turnover; they want to offer different offers to their clients. Only 4% of interviewers said that tracking competitors is not important.

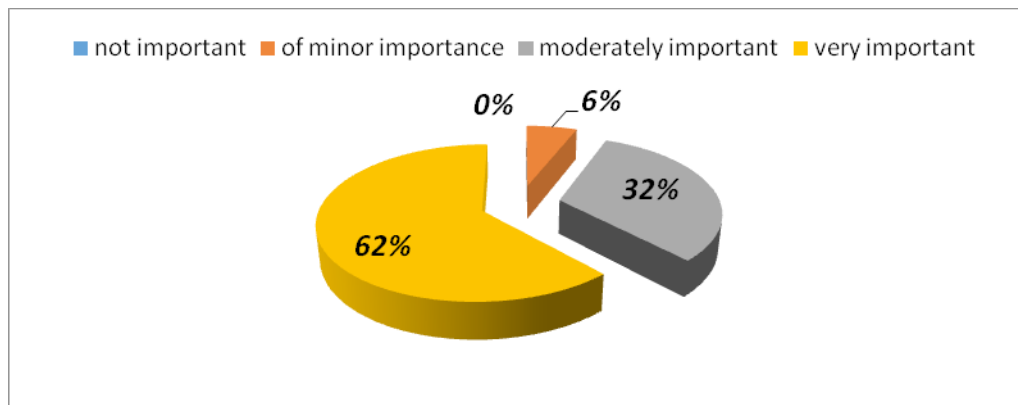


Figure 10. Companies' Attitude about Immediate Requiring of Cash Payment from their Customers

Figure 10 shows that most companies, 62 percent of them, believe relation with customers is going to be worse if customers are demanded to pay in cash immediately. There will increase some impedes doing business with their

old partners. Even loyal customers are unwilling to purchase in cash. As a result, cash payment from customers may be create difficulties between business partners. Only interviewers' 32% are thinking that it is moderately important and immediate cash payment require would not deteriorate relationships with the clients. Using trade credit helps to companies to build close and great relationships with customers.

Only 6% of interviewers consider that immediate require of cash payment is minor of importance. It can be discussed that companies who are offering a trade credit to their customers, they aware importance of offering trade credit. Immediate require of cash payment can deteriorate their business relationships.

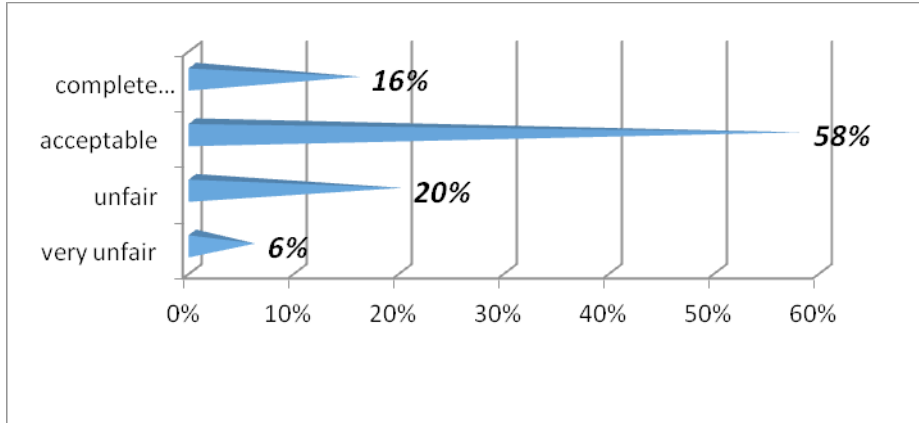


Figure 11. Companies Attitude to Customers Request to be Taken More Time to Pay

The question in Figure11 indicates that 58 percent of companies are allowing their customers late payment. Nevertheless, interviewers replied that the customer's request to get more time for pay is unfair. Twenty percent of interviewer regard that it is unfair require from the customer. Management is planning to produce certain amount of product when a client does not pay on time. This request needs more financial resources from the company. Companies find it unfair if customer did not pay in time, declining payment. Therefore, they may take serious action against customers who are not paying in time. Because cost of financing for company will raise.

Fifty eight percent of interviewers are considering that the request is acceptable, but also it is depends on the time the customer need and the amount of cash which should be pay to the company. Only sixteen percent thinks that it is completely fair from the customers to require more time. It is uncomfortable and risky request, which is undesirable for all companies.



Figure 12. Difficulty of Finding Alternative Supplier

Supplier are important stakeholder for a company to grow. Supplier are the key player to provide necessary materials for companies to produce their products or provide service efficiently in time. On the market there are many suppliers and customers can choose from them appropriate for their businesses. Companies are spending too much time and effort to choose their most suitable supplier and also keeps strong relation with their suppliers. In case suppliers do not provide inputs to their counterpart timely, production process stopped. The process will be costly to start again. But most of companies replied to question of finding suitable supplier is not difficult, only two percent consider that it is very difficult to find another supplier. Maybe these companies are offering very specific products and there are no competitors on the market.



Figure 13. Period for Paying of Trade Credit

A trade credit is great tool for companies to grow. Customers are offered different trade terms to pay back their debts. It is depending on creditworthiness of customers. Figure 13 determines that companies in Georgia are offering trade-credit from 1 day to 30 days to their customers. This period is very comfortable for many customers, because customers can get some discount with early payments companies can receive cash earlier from customers to operate their activities. The period from one day to 10 days is very comfortable for customers, because they can get more discounts from the suppliers, but the problem is that as usually, companies have no entire cash to pay immediately.

Figure 13 illustrate that about half of companies in survey state that they extend credit to customers up to 30 days. This is a general situation as many companies in other countries do. 20 percent of companies are offering credits to customers up to 6 months and more.



Figure 14. How Much Trade Credit is Profitable for Companies

As theory of trade credit and many other papers evidenced that trade credit is very beneficial for companies and caused companies to grow. The main benefits of trade credit are: Trade credits raise operational costs of companies. Because company should provide funding to finance credits offered to customers. But on the other hand, due to credit terms, companies have a possibility to reduce storage costs for uncertain demands. Firms, which have variable demand on their products want a longer trade credit period. This helps companies to decrease the operational costs.

Companies are using a trade credit because it really helps them to increase their sales simultaneously. Trade credit can stimulate customers to purchase products. Sometimes trade credit is considered as a price discrimination between customer pays in cash and credit customer. Companies are often changing trade credit terms according to elasticity of demand of their product.

Companies can build a stable relationship with customers, by extending credits to their customers. As a reverse, customers also will able to generate long relationships with companies. According to dependency theory, customers are depending on their suppliers which can result higher implicit interest rate. Figure 14 shows that 82 percent of surveyed companies confirm that extending credits to customers push the sales up. Ten percent of them are not agree with profitability of extended credits.



Figure15. Offering Trade Credit Increases Customer Loyalty to Companies

In business, companies are trying to produce quality products and offer to their customer trade credit or find other ways to deserve customers' loyalty. There are different approaches to attract more customers and deserve their loyalty.

Keep customers informed. The first very important way to deserve customers' loyalty is to give information to the company's business activities. The company should be always ready to help their customers. Its web page should include all necessary information about everything customers' need to know.

Talk to customers. It is very good practice to be always in touch to customers. To speak with the customers directly is very good way to attract attention and loyalty from them. Good companies always offer their new products and services to their regular customers. In the Figure 15 percent of interviewers accepted that offering trade credit increases customers' loyalty to their companies. Relatively only 4 percent opposite to credit extending increase customer's loyalty.

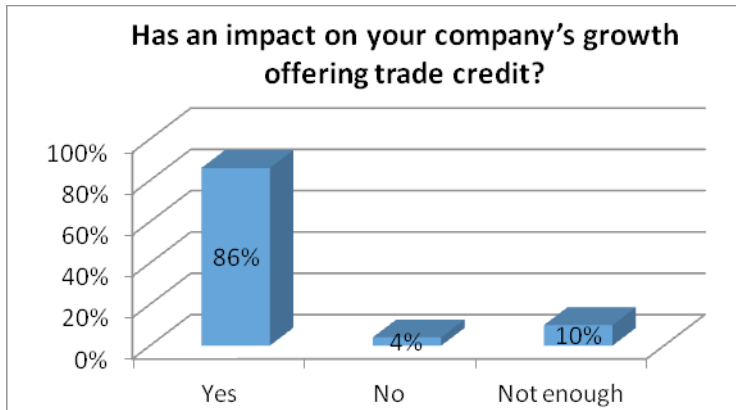


Figure 16. Trade Credit Impact on the Companies' Growth

Growth is very important for companies. Companies are trying to find ways to grow their firms, developing new products, entering to new segment or to new production line etc. Finding appropriate tool is essential to success in growth.

Growth strategies involve different activities for achieve long – term success. Company management plans how to achieve growth and which business activities should be effective for their company's growth. Otherwise, companies have no chances to survive.

The first important step is to establish company's value proposition. Company's management should analyze what is the most important offer from the company to customers. Companies should analyze why customers choose this company, why customers are demanding the products produced, what makes products differed from competitors. Having this information, management can answer to their customers by producing best products.

Also, very important step is to define company's key indicators. When company management knows which indicators are affecting the growth of the company, then it is possible to dedicate time and appropriate money to these areas.

To verify the company's revenue streams can influence to the growth of the company. Company management should identify what revenue streams could be added. Will be the new revenue streams profitable to the company? How sustainable they could be to the company in the long run? To identify this information should be profitable for management to make an effective decision.

Offering trade credit. Companies are using trade credit to grow, because it has influence of growing. Offering trade credit is source of financing and it is profitable for companies. Therefore, 80 percent of companies in survey state that offering trade credit has important effects on growth of companies (see Figure 16). Only 10 percent see it not enough for growing.

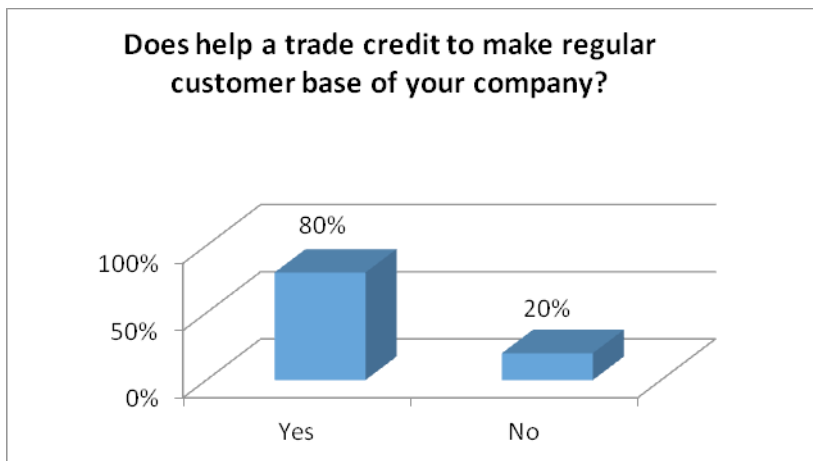


Figure 17. Trade Credit's Influence to Make Regular Customer Base

Companies are trying to attract more customers and keep their customer loyal to them. Companies are spending tremendous efforts and marketing to gain new customers. Companies should establish good understanding of their needs and their proposal and financial problems. If they do not manage to response to their customer's needs, they have no change to survive in a severe competitive market. In short, existing customers and new customers should be satisfied with companies' efforts. So, companies should pay attention and support already existed clients to maintain them.

Figure 17 illustrates 80 percent of participants in survey believes extending credits keeps customers within companies, customer become loyal to companies. Different surveys are showing that 78% of existing clients are not coming back because of poor service of the company. If a company want to create regular customer base, it should offer to their client's differential products / services than competitors. Offering trade credit is helpful for companies to create regular customer base. Trade credit is very convenient and makes customers to become the companies' loyal customers

Conclusion

Findings in current papers determined that trade credit is very convenient in Georgia, but the practice of using trade credit is not very developed.

Companies aim to stay and grow in the market where they exist. To achieve this task, companies in Georgia can achieve it, by offering good credit terms as survey determined. There are often appearing conflicts between companies' management and customers. These conflicts are caused by conflict of interest between companies and customers. Paper illustrate several times that trade credit is showing not just commitment of the companies to their customers, also it is as warranty for customers. To require immediate or quick payment from customers distorted relation with customers. Many customers are using trade credit because they have no possibilities to pay on time. Because opportunity cost is high. In the survey, it is evidenced that if customers are required to pay immediately, companies' relation with them are deteriorated. In contradiction to this event, to offer to customer long period to pay, it increased the cost of company' financings.

Every company is trying to attract more customers and maintain old ones. Trade credit is great tool for companies to create regular customer base. Regular customer base gives a chance to companies to have trust to their customer and it gives them possibilities to accept long period to pay. Extending long term credits to them can establish loyalty of customer. Loyalty is very helpful for companies, because loyal customers bring new consumers. Paper recommends that companies should try making regular customer base, which should be significant for them to grow, by managing a good credit strategy.

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