Chapter Five:

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In this chapter: The reader will learn some of the tasks of the financial manager, the general manager, and the economic consultants as follows:

1- The types of influences that affect the company's activity.
2- The extent of the impact of those influences (positively or negatively) on the company's activity.
3- Identification of the four elements that affect the working capital turnover rate.
4- Determination of the economic elements related to the economic situation that the country is going through and their impact on the company's activity.
5- The principles to be considered when the sales cost value increases for the company to continue competing in the market.
6- The principles to be considered when the company gives discounts on the selling price for the company to continue competing in the market.
7- Practical examples.

1- The types of influences that affect the company's activity.

Introduction:

All companies do not operate in isolation from the environment in which they operate. They affect and are affected by the environment, whether these influences are negative or positive, which compel the companies to adapt to these variables in order to continue in the working market by taking the appropriate decision to face these variables.

Types of influences:

1- Legal influences (when the law regulates a specific activity).
2- Natural and social influences (such as natural disasters – the emergence of diseases such as the Coronavirus).
3- Political influences (such as wars).
4- Economic influences (such as recession - unemployment ... etc.)

2- The extent of the impact of those influences (positively or negatively) on the company's activity.

Here this question appears: from where do we know about these influences that affected the company activity, whether positively or negatively?

The answer is:

We know these influences through the rate of working capital turnover. In the third chapter, we discussed determination of the efficiency degree of the company's employees in managing the basic activity of the company and we discussed the following:

- If the working capital turnover rate achieves profits equivalent to the available resources to the company, we conclude that there are positive influences that achieved these profits
- If the working capital turnover rate does not achieve profits equivalent to the available resources to the company, we conclude that there are negative influences that affected the achievement of profits.

3- Identification of the four elements that affect the working capital turnover rate.

The question:

What are the influences that affect the rate of working capital turnover (starting from purchasing of raw materials - manufacturing and production - marketing - selling and collection of sales values)?

The answer:

The influences that affect the rate of working capital turnover are summarized in four elements as follows:

The first element: Weak of administration efficiency (the human element), whether the production department, marketing department, or follow up the higher administration (this is due to the presence of a defect or deficiency in the followed systems and regulations in the company).

The second element: The existence of a material problem that disrupted the working capital turnover (such as equipment, money, raw material).

The third element: There is a deficiency in the quality of the product.

The fourth element: The existence of weak purchasing power for consumers.

1- **Regarding the first element**, which is weak of efficiency of the human element, we discussed in the first chapter how the human resource manager chooses the members of the different departments (production - marketing - financial - the general manager) and how he puts the right man in the right job. As well as the administrators must implement and follow the systems and regulations in the company.
2- **Regarding the second element**, which is the existence of a material problem that disrupted the working capital turnover, we discussed this problem as follows:
   A- In the second chapter of this book, we discussed how the financial manager manages the company's finances and identifies their effect on the result of the activity by determination of the extent of the impact of general expenses, debit interest, and credit interest on the company's results.
   B- In the fourth chapter, we discussed the company's need for liquidity through the extent of the company's validity in dealing with bank credit. If the

company was able to implement the basic estimated budget and the credit budget, it deals with bank credit to provide the liquidity that it needs, otherwise the company seeks to increase its capital.

3- **Regarding the third element**, there is the deficiency in product quality. This deficiency must be known through the company, because the company is the most knowledgeable one of the techniques of its product, and on another hand, the technical field of product manufacture is outside the approach that is presented by this book.
4- **Regarding the fourth element**, which is the presence of low purchasing power for consumers; this is what we will explain through the following economic elements.

4- Determination of the economic elements related to the economic situation that the country is going through and their impact on the company's activity.

Here, we will summarize the economic elements that are related to the economic situation of the State and they have impact on the company's activity through these questions:

1- Is the company's product an essential product or a luxury product?
2- How often per year do the company's customers need these products?
3- What is the value of the product versus the income of the company's clients in the year?
4- What is the state of purchasing power of the company's customers?
5- Are the company's customers in the local market or in foreign markets (the case of exportation)?
6- Does the state support the company's product or not?
7- Is installment system appropriate for companies' products or not?
8- Are there local or foreign market competitors (in case of importation) for the product?

In the following lines, we will answer these above questions to find out the significance of each question and its impact on the purchasing power of the company's customers.

The answer of the first question: Is the company's product an essential product or a luxury product? Here, the company must determine whether its product is a necessary product or a luxury product, because in a state of depression, which weakens the purchasing power, people try to keep their money and only spend it on necessary product, as necessary product has priority in spending, so the owners of luxury products must find solutions to encourage their customers to buy their products through the following (the presence of installment systems for the product proportional to the purchasing power of their customers - Reducing the prices of their products in the case that these products allow this, as we will explain in the following) or finding new customers with greater purchasing power, whether in the local or foreign markets).

The answer of the second question: How many times in the year the company's customers need these products? The products differ from each other in the extent to which customers need the companies' products. For example, the customer's need for food is daily, as for clothes, it is seasonal. As for cars, it depends on the desire of car customers for buying. What is the importance of knowing the number of times the company's customers need the products of the company in a year? It is for knowing the number of working capital turnover for the company and the suitability of this number to achieve profits that are equivalent to the available resources, after the company knows the available marketing gap, and the company's share in this marketing gap, in the existence of the weak purchasing power of its customers.

The answer of the third question: What is the value of the product in relation to the income of the company's customers in the year? Here we are necessary to know the customer's share value of the company's products and what he consumes during the year. Why? If the ratio of the value of the products that the customer consumes in relation to his annual income is few, the company guarantees the repetition of the working capital turnover. Or the company should increase its advertising to motivate them to buy.

The answer of the fourth question: What is the state of purchasing power of the company's customers? The answer of this question does not depend on the state of recession only, but on the various economic conditions. Why? Because the sales policy and pricing differ according to the state of purchasing power of the company's customers as we will explain at the following:

1- If the state of purchasing power is strong and differs between classes of society. Here we must apply the Marshall surplus (meaning that the prices of the product start high, as it is directed to the class with large purchasing power, and after a period a discount is made on the selling prices of the product in order to sell it to a segment with less purchasing power and so on).
2- If the state of purchasing power is weak. Here, the companies need means to motivate these customers through advertising means - installments - reducing of product prices.

The answer of the fifth question: Are the customers of the company in the local market or in the foreign market (The case of exportation)? It is known that there is difference in the standard of living between countries with each other and there is also difference in the exchange rate of the currencies exchanged between countries, so the company must study these markets to choose the market that is appropriate for its products as well as the purchasing power that achieves the profits that the company wants.

The answer of the sixth question: Does the state support the company's product or not? Sometimes some countries provide support with the aim of strengthening the purchasing power by reducing customs on imported materials that enter into the company's production or providing support through the selling price of the product, especially for the necessary products, which allows these companies to continue in the working market.

The answer of the seventh question: Is it valid for the company to deal in installments with its products or not? There are some products that are suitable for installments, such as real estate companies because the number of working capital turnover is by its nature slow, it may sometimes take more than one year and the value of real estate is large, so these companies resort to use the installment system, either through the company or banks, but there are some companies that need to liquidity through collection of the value of their sales to enter it again in many rounds of working capital turnover, such as biscuit companies, and thus the installment period is simple. It may be for a few days, because the biscuit company needs a present purchasing power.

The answer of the eighth question: Are there local or foreign market competitors (in the case of importation) for the product. In case that there are competitors for the company's product, this situation puts the company under pressure to grant an advantage in attracting the purchasing power of customers by granting discounts on selling prices, on the other hand, the pressure continues at the company when the costs of the product increase, where the question becomes: is it possible to sell this product whose costs have increased at its old price, or the company is forced to raise its prices to avoid loss and it loses its competition in the market.

Note: We will discuss later the principles that the company must take into account when it gives discounts on the selling price or when the costs of the product increase in order to continue its competition in the market.

By answering the previous eight questions, we have explained the complete map to any company to deal with purchasing power. Please choose what suits your company from this map.