



Institute for Management and
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CREDIT SALE OF BIG TREE AGGROTECH: TO IMPLEMENT OR NOT TO IMPLEMENT

Norhafiza Nordin, Nora Azureen Abdul Rahman

This case was written by Norhafiza Nordin and Nora Azureen Abdul Rahman, Universiti Utara Malaysia. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Institute for Management and Business Research (IMBRe)
Universiti Utara Malaysia
Tel : +604 – 928 7607/7608/7609 | Fax: +604 – 928 7611
<http://www.imbre.uum.edu.my>

Case Synopsis

This case study is about Khairil and Azizi, the owners of Big Tree Agrotech who were in a dilemma whether to implement a credit sale or not. This is because a credit sale has advantages and disadvantages. Before offering a credit sale facility, a company needs to fully consider the effects of additional risks that come with it. To minimize the risk, the person in charge, i.e. the credit manager, needs to thoroughly evaluate the customers' creditworthiness. This may include getting the customers' credit references and credit reports. The biggest advantage of credit sale is it may increase sale. Although credit facility increases sale but at the same time it also increases risk. One of the disadvantages of selling on credit is it affects the company's cash flow. This is because payment will only be received later, yet the company may have to settle other obligations in cash. Nevertheless, offering credit to customers is one of the effective tools to attract more customers, to increase sale and to stay competitive in the marketplace. Thorough planning must be done before a company decides to offer credit sale. The consequences of providing credit sale can be significant as it affects a company's liquidity, profitability and funds needed. A well-established credit policy will definitely help the company to minimize the risks. This case is designed to guide the students to identify and analyze the important factors that should be taken into consideration in deciding to offer credit facility. In brief, the purpose of this case is to discuss the important role of credit sale and; advantages and disadvantages of offering credit facility.

Introduction

It was 7:30 am, 1st February 2018, Khairil and Azizi were having breakfast at a restaurant near their farm. The farm was located in Titi Tinggi, one of the prime agricultural lands in Perlis. Specifically, Titi Tinggi was situated 15 kilometers from Padang Besar and about 30 kilometers from Kangar. It had been two years since Khairil, the owner of Big Tree Agrotech, and his best friend, Azizi, started their first project. They were engrossed engaging in a conversation regarding the marketing strategy for the vegetables. As the production increased, they had to find new customers as well as retaining the existing customers. Vegetables were perishable, they must sell them as soon as possible. "We need to expand our market. I think we should sell our vegetables on credit" suggested Azizi. "Well..... it is worth a closer look" Khairil's immediate response to his best friend. "Maybe by offering credit facility, we can expand our market and grow our business" replied Azizi excitedly.

The problem was Khairil and Azizi needed to enlarge the market for their products. They needed more customers. Presently, their main customers were restaurants and retailers in Perlis. All transactions were conducted in cash. As the production increased, they could not rely on existing customers. "What is your plan?" Khairil asked. "We need to offer credit sale facility. By offering credit facility, we can increase the sale" said Azizi. "We can apply what we learned in our Credit Management class, credit term. Maybe we can offer credit term of 2/10, net 30" continued Azizi. "Agree.... But there are so many things to be considered. Monetary consistency must be our main objective. We must do a thorough analysis. We need to have a well-developed credit policy as it needs to be clearly communicated to our customers" replied Khairil. "Are you aware of the additional risk if we sell our products on credit? Credit sale will definitely affect our liquidity, profitability and capital." added Khairil.

With that question, both finished their food and agreed to carefully consider and think about the plan. Both also agreed that they would discuss and make the final decision whether or not to proceed with the plan in one-week time.

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- **04-928 7605 / 7609 (CDR Secretariat)**
- cdr@uum.edu.my