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Exploring the Credit Management of Owners in the Surplus Automotive Industry

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A B S T R A C T

This take a look at examined the credit rating management practices of agency owners inside the surplus car organisation often deals with big economic transactions, and purchaser creditworthiness changed into various appreciably, posing ability dangers to corporations. It aimed to understand how business employer owners investigate their clients' functionality to repay money owed, how they manage credit score terms, and the way they address demanding situations along with not on time payments or horrible debts. By studying those factors, the observe explores how credit score manage techniques effect monetary stability, profitability, and patron relationships inside the enterprise. The researchers use a aggregate of interviews and facts assessment to assess present day practices and pick out out powerful techniques employed thru enterprise proprietors to make certain sustainable credit score rules. It highlights the significance of putting clear credit phrases, which encompass rate closing dates, hobby charges, and the manner for assessing creditworthiness in advance than extending loans. Furthermore, it explores the function of patron courting control in preserving steady coins go together with the drift and minimizing the threat of non-payment. The findings provide a sensible belief that helped surplus automobile companies refine their credit score management systems, most important to higher monetary health and stronger organisation performance. The people provide treasured data for destiny researchers interested by exploring credit score management practices in location of hobby industries, contributing to the improvement of greater robust frameworks for coping with credit score score hazard.

Keywords: *Credit Management, Credit Policies, Creditworthiness, Financial Stability, Risk Management*

Introduction

The surplus vehicle enterprise performs a important function in presenting cheap car options for clients, mainly in growing markets. However, managing credit score on this area poses specific challenges due to diverse economic abilties of consumers and the fluctuating price of 2nd-hand automobiles. Effective credit score score manage ensures that dealerships and creditors limit monetary risks at the same time as maximizing earnings possibilities. Understanding the key elements influencing credit score rating approval, reimbursement conduct, and chance mitigation is critical for sustainable operations.

This have a take a look at explores the credit score management techniques hired in the surplus vehicle enterprise, focusing on loan structuring, risk evaluation, and collection techniques. By studying enterprise practices, it goals to find out pleasant practices that stability profitability and accessibility for customers. The findings will make a contribution to enhancing financial techniques for dealers, creditors, and policymakers involved inside the area. Ultimately, improving credit score manage in this enterprise can sell responsible lending whilst helping enterprise increase.

Review of Literature

The automotive industry is a good sized region, with multiple contemporary durations and inventions impacting its essential operations (Dimitrakopoulos, 2021). It is among the most huge worldwide manufacturing sectors. Hence, the auto location substantially aids the worldwide financial system and is carefully related to many other global issues, which include trade, electricity usage, pollution, and protection (Nieuwenhuis & Wells, 2015). It is one of the maximum extensive international pastime creators, and its significance comes from its complex relationships and price chain to neighborhood and worldwide economies.

The corporation synthetic the automobiles on shifting assembly traces with significantly coordinated, complex approaches (Broding & Fartasch, 2018). The car zone underwent sizeable modifications in its market shape regarding era and rules (Grieco, 2023). One of the most important manufacturing industries in the international stays the car enterprise. However, it desires to be more generation-centered and relatively quick-time period-centered (Wiley & Sons, 2015).

Before, the economic crisis of the early Eighties, the location observed substantial deindustrialization, which additionally affected the automobile organization. The enterprise changed into also negatively impacted by using developing globalization (Donnelly et al., 2016). Accordingly, the auto area is a sizeable stress inside the returned of countrywide monetary enlargement. At the identical time, the auto region is at the middle of tremendous changes: rising technologies that would usher in a worldwide "green deal" and supply chain problems introduced on via the aftermath of pandemics in Asia (Horobet & Alexe, 2021). The vehicle quarter plays a tremendous role in promoting financial increase. Almost twenty percent of the revenues within the car industrial organisation may come from the financing of automobiles.

In addition to producing great profits for automakers, car financing will increase credit utilization and relieves credit score strain on borrowers (Tao, 2020). The automobile region is seeing extraordinary technical improvements, intensifying opposition among producers and distributors. One opportunity which can help clients in obtaining their ideal vehicle is to purchase it on credit score score. For creditors, being able to attract greater debtors is remarkable records. However, inadequate borrower assessment can lead to a upward thrust in non-performing loans (Prosperindo & Tamzil, 2018). Furthermore, Japan's automobile organization dominates global markets with reasonably-priced, fuel-green motors, keeping off loose trade guidelines to defend its company model (Boers, 2020). Similarly, the Korean automobile enterprise shifted from manual hard work to modernized assembly line production.

The Korean government performed the "Automotive Industry five-Year Plan" in 1962 to alter assembly vegetation and sell domestic car production (Cho & Kim, 2014). In the Philippines, the auto zone, in conjunction with car assembly and factors manufacturing, contributed 19% to the u . S .'s GDP in 2023, with vital gamers like Nissan, Honda, Toyota, and Isuzu (Balita, 2024).

Moreover, surplus automobiles, mainly from Japan, the U.S., and Europe, are classified as such due to local regulations or high ownership costs (Matsui, 2023). In Camarines Norte, the surplus automotive industry includes imported used vehicles, parts sales, and repair services, primarily sourced from Japan (Naval & Aloc, 2021).

Auto finance companies must mostly control credit risk to preserve market stability and reduce losses from defaults, repossessions, and other financial setbacks. This excess automobile debt is one type of debt. Due to their reliance on scant data, conventional credit scoring algorithms have needed help accurately estimating the chance of default (Owalabi, 2024). Analysis shows several accounts payable payment terms, inventory, and short cash conversion cycles (Cs). Moreover, the most profitable businesses pay their suppliers on schedule (Pirttila et al., 2020).

In the credit management of motorcycle dealers in Camarines Norte, most respondents had at least five million and above in original capital investment with at least one million average annual installment sales (Naval & Aloc, 2021). It provides the foundation for improved liquidity; it is crucial to assess clients' creditworthiness more seriously (Jakopovic, 2018). The global financial crisis has extensively damaged credit management. Due to procedural inefficiencies, credit availability for individuals and credit availability for industry decreased (Parry & Roehrich, 2014).

Thus, asset-backed securities (ABS) are significant in contracts for German vehicle financing, emphasizing the initial transactions in 2004. It Identifies potential conflicts between interest groups, investigates the reasons behind inefficient pricing in auto-captive portfolios, and proposes securitization as a comprehensive solution. When deciding whether to assign a contract to an ABS transaction, it establishes a methodology that considers regulatory capital arbitrage, return on equity, and risk-adjusted capital optimization (Hener, 2015).

The automotive sector, including OEMs, suppliers, and distributors, plays a crucial economic role, with a focus on leaner supply chains (Kaizen et al., 2022). In sub-Saharan Africa, addressing the $16.3 billion trade deficit requires investment strategies tailored for lower-income nations (Black et al., 2017), while auto financing must carefully manage credit risk to prevent significant losses (Defi, 2024).

To evaluate credit risk, the model calls for creating a client base, ongoing base monitoring, and a blend of qualitative, financial, and quantitative analysis components. Using this model would enable prompt identification of each client's credit risk, which is the primary source of illiquidity in this industry, and the implementation of strategies to mitigate it (Jakupovic et al., 2017). Despite having a more extended history of automotive production than its neighbors in Southeast Asia, the car industry in the Philippines has not fared as well.

The 2015 Comprehensive Automotive Resurgence Strategy (CARS) aims to address challenges like a limited component industry, foreign competition, and trade agreements (Natsuda & Thoburn, 2018). Research on the Cash Conversion Cycle from 2006 to 2016 revealed trends in working capital management, aiding supply chain and business strategy planning (Shpak, 2019).

The auto lending industry plays a crucial role in economic development by providing financial support to consumers and automakers (Chopra & Parwej, 2024). As the shift to electric vehicles presents challenges, democratic decision-making in production can help ensure environmental and social benefits (Kiel, 2024). Competition among manufacturers is rising, and offering credit helps customers acquire vehicles, but lenders must carefully assess risks to avoid non-performing loans (Tripwire, 2019).

Notably, surplus automotive financing involves significant credit risk, as defaults can lead to major business losses (Def, 2024). Open innovation helps companies address innovation challenges and achieve long-term competitiveness. Automotive Component Manufacturers (ACMs) face challenges such as asset shortages, lack of adaptable skills, and high risks (Gonyora et al., 2021). The auto industry, including producers, suppliers, and logistics providers, plays a crucial economic role, with modern manufacturers focusing on leaner supply chains that integrate customers and suppliers (Aizen et al., 2021).ACMs are vital to the automotive sector but face supply chain challenges (Naude & Weiss, 2015). The Philippine automotive industry struggles with limited local components, foreign competition, and trade issues despite its long history (Thoburn, 2019).

Methodology

This study was developed to explore the practices of credit management in surplus automotive industry. The researchers interviewed ten (10) participants using the validated interview guide. The interviews were conducted through in-person and the proponents were asked to answer the questions based on the background of their experiences with the topic. The study examines the credit management practices in the surplus automotive industry, focusing on how businesses handle financing and loan repayments from buyers. It considers dealerships and financial institutions that have engaged in at least two credit transactions, regardless of the repayment terms. The research aims to understand the various financial strategies used in managing credit risks, ensuring loan recoveries, and sustaining business profitability. It provides insights into the challenges, mitigation measures, and distinct approaches applied within the industry. The study's sample comprised male and female owners of the business in Pagadian City. These owners, who fulfill particular criteria to qualify as

participants, provided a diverse yet cohesive representation of their credit management practices in the surplus automotive industry. The researchers served as the primary instrument of the study, utilizing validated, verified, and accepted interview questions from the panelists in order to gather comprehensive, open-ended insights regarding financial behaviors and credit management practices in surplus automotive industry.

The researchers' actual instrument used by the participants in the interview questions: How do surplus automotive industries obtain their vehicle components? What are the processes of the surplus automotive industry in approving credits? What are the strategies of the automotive surplus Industry to collect receivables? What are the strategies of the automotive surplus Industry to manage delinquent accounts? What are the challenges of the Automotive Surplus Industry in managing delinquent accounts? How do automotive surplus Industry cope up with the challenges they encountered in managing delinquent accounts? The researchers recorded and documented the entire interview process in order to record the participants' responses and experiences. The researchers utilized thematic analysis to systematically categorize and aggregate data, grouping comparable responses to identify patterns and themes in participants' credit management practices in surplus automotive industry.

Findings and Conclusion

The research findings from surplus automotive industry owners reveal distinct credit management practices, factors influencing credit approval, strategies for collecting receivables, challenges in handling delinquent accounts, and methods used to mitigate financial risks in credit transactions.

The credit management practices of surplus automotive industry owners focus on assessing buyers' financial capacity, setting flexible payment terms, and implementing risk assessment measures before approving credit. The factors that influence credit approval include the buyer’s credit history, down payment amount, income stability, and the vehicle’s resale value. To collect receivables efficiently, owners employ strategies such as scheduled follow-ups, offering payment incentives, enforcing contract terms, and utilizing third-party collection agencies. However, they encounter challenges in managing delinquent accounts due to inconsistent buyer payments, economic downturns, legal constraints, and the high depreciation rate of surplus vehicles. To address these challenges, owners implement strategies such as renegotiating payment terms, legal enforcement, offering trade-in options, and enhancing customer financial literacy.

The researchers concluded that credit management in the surplus automotive industry is crucial for maintaining business profitability while ensuring accessible financing for buyers. Understanding the experiences of industry owners provides valuable insights into their financial decision-making and risk mitigation strategies. The factors influencing credit approval highlight the importance of financial assessment in reducing non-performing accounts. The strategies for collecting receivables emphasize the need for proactive engagement and enforcement of credit terms. Despite these efforts, delinquent accounts remain a significant challenge, requiring adaptive strategies to maintain business stability. Therefore, this study contributes to a deeper understanding of credit management in the surplus automotive industry, offering practical insights for industry owners, financial institutions, and policymakers to improve financial sustainability in this sector.

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