STUDY ON FINANCIAL COMMUNICATIONS FROM PUBLIC RETAIL COMPANIES: COMPARATIVE ANALYSIS – MILANO STOCK EXCHANGE AND BUCHAREST STOCK EXCHANGE

Veronica GROSU
Stefan cel Mare University of Suceava, Romania
veronicag@seap.usv.ro

Abstract
The economic and financial crisis that hit the world economy has shown that for retail companies, growth continued to record only for those who held full control over every point of sale. The objective of our work is focused on the analysis of the most important financial indicators that a retail company should focus on and include in communication with external stakeholders. We make the connection with problems of the real economy through a comparative study of Romania and Italy, in which we analyze retail companies listed on the Bucharest Stock Exchange (BSE) and a similar number of retail companies listed on the Milan Stock Exchange (MSE). The importance of the topic stems from the fact that it is essential for understanding how consumers relate the various retail companies and how the latter model their structure or behavior depending on the requirements and needs of the former.

Key words: *Finacial communication; public retail companies; financial indicators.*

I. INTRODUCTION

In the comparative analysis of retail companies listed on the BSE and listed on the Milan Stock Exchange, the attention has been focused on performance management and financial position to determine the degree of attracting or maintaining current and potential investors. As a consequence of the recent financial crisis, retail companies realized the importance of liquidity as a key element in maintaining and continuing their activities for dealing with the crisis. Most companies, including those in other sectors, were put in a position to do everything legally available for releasing the circulating capital.

The subject of this research paper is focused on the analysis of the main financial and aggregate indicators that publicly traded retail companies listed on an EU regulated market communicate through financial reports. Considering the specific interests of each stakeholder category, it is important that the reporting entity directs its communication so that they can influence or determine the desired stakeholder behavior (Bostan, Burciu and Grosu, 2010).

In order to analyze the advantages and disadvantages of economic and financial communication for these types of entities and to identify information deficiencies in relation to the information users, we conducted a comparative study in the last part of the paper regarding a comparison between Romania and Italy with an analysis of listed retail companies on the Bucharest Stock Exchange (BSE) and a similar number of retail companies listed on the Milan Stock Exchange (MSE). The analysis is made from the point of view of the indicators considered significant in terms communication and that characterize the retail business.

Often one can notice an overlap between communication and information terms, concepts that should be treated separately. In this sense, knowledge (or information reported) as all communications via any channel broadcast by the management of a publicly traded company (or anyone who can exert a significant influence on decisions about the firm concerned) on different categories of subjects with converging interests (may be intended for all users of information or only a certain category), with the purpose of managing each operation and all existing operations in a given period" (Belcredi, 1993). From the definition we can say that the concept of communication is much more extensive and complex than information as it assumes significant importance throughout the transmission of the message and not just its contents (Bertinetti, 1996; Bostan and Grosu, 2009). Communication of an economic-financial nature is a complex framework that has attracted academic and professional attention in recent years, both nationally and internationally. In this context, particular interest has been focused on economic and financial communication functions, particularly that related to financial reporting, but not only (Mates et. al. 2008; Bostan et al. 2008).

II. The planning process in the retail industry and performance indicator analysis for the retail companies listed on BSE and on Milan Stock Exchange

The company's ability to meet and communicate with the external environment is fundamental in dealing with a *top-down* style communication, or firm to market, but also *bottom-up*, or the market for the company. Economic and financial communication processes can be described as follows: the company decides to mitigate risk by sharing with other subjects and send messages to the capital market; the financial communication task, in this context, is that of facilitating the identification of areas at risk by investors that the company itself calls to share them. This circuit closes with an assessment of risk by the capital markets of the firm, that communicates or not its consensus to the company's management (Bertinetti, 1996).

Even since the 60's a growing number of companies are developing their own communication strategy based on "broadcasting time", or reducing the time for reporting information in response to requests from the external environment (Cohendet & Llerena, 1990).

Another aspect that cannot and should not be ignored is that these companies can find themselves in the situation to reconsider (on the short term) the optimum level of indebtedness. Working capital remains one of the few times that can still produce cash in a relatively short period without resorting to an invasive restructuring program.

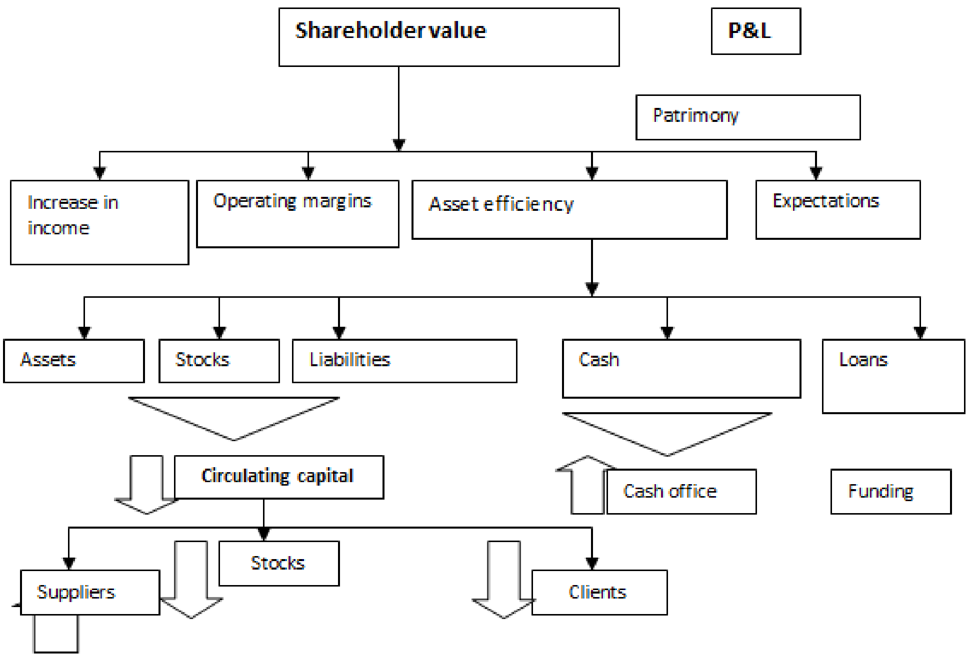


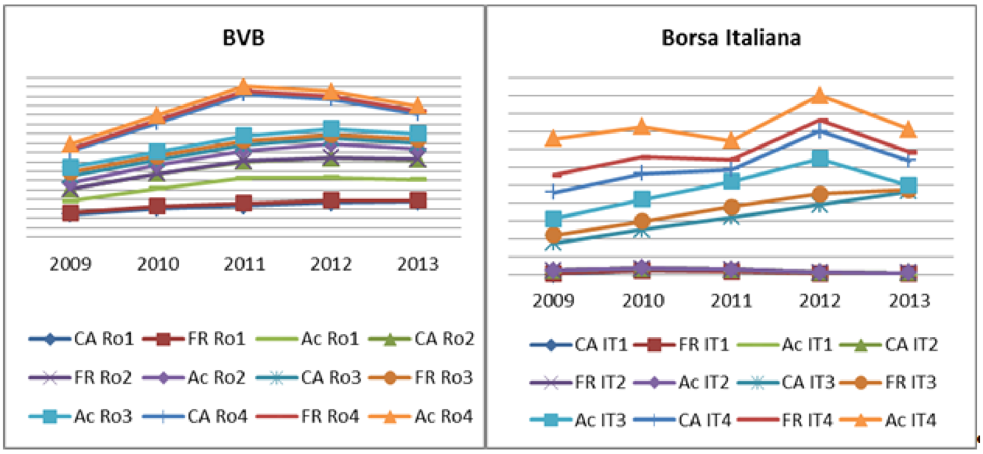
Figure no. 1 : Determining elements for creating value for shareholders
Source: La gestione del Capitale circulante, Deloitte analysis and Benchmarks, NDFA, 2012

In the retail industry merchandise planning can be described as a systematic approach to maximize return on investment (ROI) through sales, inventory spaces and product assortments planning to increase profitability and minimizing inventory markdown and tears. In other words, merchandise planning is the process through which a retail company attempts to provide fair amount of the merchandise, at the right store, at the right time, while striving to meet the financial goals of the company (Levy & Weitz, 2006).

An analysis of the turnover evolution in relation to the working capital for the two groups of retail companies, Romania – Italy, provides information on sales volumes and improved operational planning for both commercial activity and of for the production, where appropriate. From this point of view, it is very important to release working capital liquidity through the following steps:

- Improving product life cycle management and implementation of promotional campaigns;
- Elimination of errors in the calculation of turnover and delays related;
- Improving the collection by strengthening contractual relations and reducing credit risk;
- Setting the terms of payment for all customers based on the average in the sector that generates the offer;
- Establishing a priority list of vendors and fixing the standard terms on priorities;

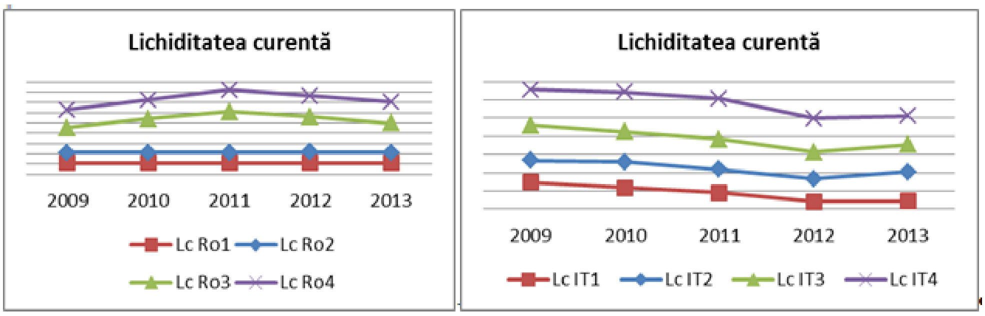
Chart nr. 1: Turnover, floating capital and circulating assets evolution at the 4 retail companies listed at BSE and MSE between 2009 and 2013



Regarding the evolution of working capital, it has a direct impact on a company's financial dynamics, so monitoring is fundamental in shaping its work. The most important factors that influence its dynamics can be classified as follows:

- The seasonality of the business;
- Characteristics of the specific sector;
- Competitive scenario;
- Cost of capital and the evolution of turnover.

Chart nr.2 Liquidity evolution at the 4 retail companies listed at BSE and MSE between 2009 and 2013

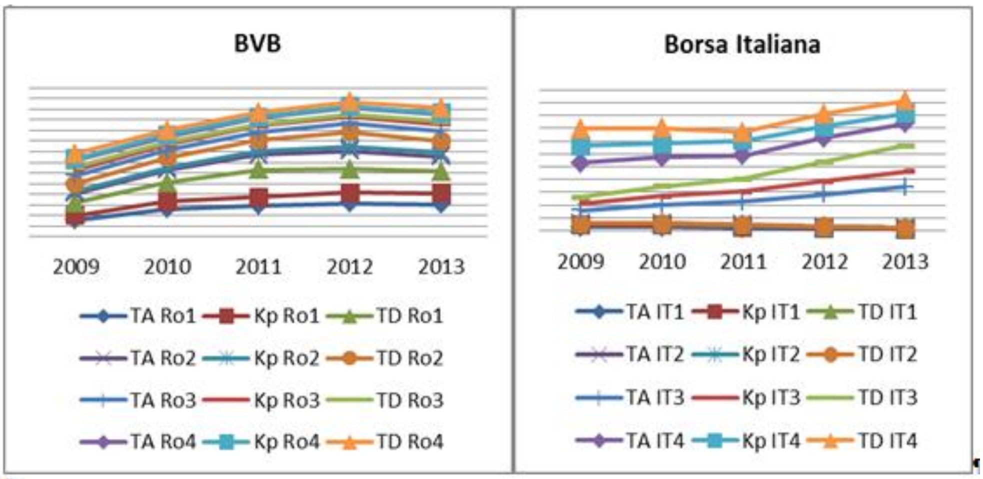


The main effects of the factors on the value of working capital are:

- They can lead to reductions in working capital at certain times of the year, thus the need to cover the requirements through appropriate funding;
- Existing requirements imposed in a particular sector or country can influence the conditions of collection or payment, intervening a "rigidity" of these operations;
- In order to compete, retail companies must opt for decisions affecting the amount of working capital (inventory levels, conditions of collection, etc.)
- Can influence investment decisions for circulating capital;
- An increase in turnover can increase working capital (stocks and loans - higher values) with an increase in the need for adequate financial capital.

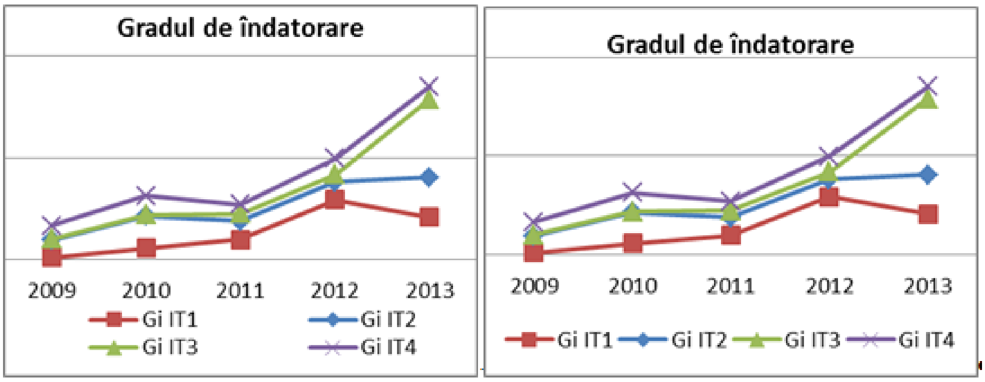
A reduction in sales will not necessarily lead to a reduction in working capital, as it may cause problems such as management of unsaleable stocks to the market (Grosu and Socoliuc, 2008). The measurement of working capital and overall capital helps to express the speed of rotation of working capital, because the lower the value, the less external financing will be needed; it will be largely self-financed from loans to suppliers. At the same time, a negative value shows a surplus of working capital loans and therefore will be fully financed from own sources and excess liquidity will be used to finance investments in fixed assets.

Chart nr 3. Financial position evolution at the 4 retail companies listed at BSE and MSE between 2009 and 2013



Net financial position is an indicator of the financial structure significantly influenced by the amount of working capital, as an extension of payment terms to suppliers, cash management and therefore contribute to a reduction financial loans. However, in a contrary situation, delay in customer payments will lead to worsening financial credits.

Chart nr 4. Leverage evolution at the 4 retail companies listed at BSE and MSE between 2009 and 2013



Regarding the evaluation of the performance of such companies, it is important to identify immediate opportunities for improvement, because otherwise, difficulties may occur with effects on cash generation in the acquisition process.

Thus in terms of managing contracts and suppliers, it is possible that decentralization will lead to a weakening procurement purchasing power. In the company there can be different conditions of payment for the same supplier. When accounting for bills without a maturity period is likely that: payment policies cannot be applied, risking to pay ahead of schedule, and procurement management payments can be practiced even in situations where differences in delivered quantities exceed the amounts specified in the contract.

Regarding dividend distribution per share, it is important to note that there is a EU directive that defines certain conditions and measures in order to protect the interests of investors depending on their class; given that the subject of our research was represented by the companies listed on the Milan Stock Exchange BSE and it is necessary to take into account relevant Community legislation therefore brings into question some key considerations over the main types of investors.

Regarding the classification of types of investors, Directive MIFID 2004/39 / EC classifies them into three categories, namely:

- Retail Investors;
- Professional investor;
- Other stakeholders.

Retail investors are those who require a higher level of protection, namely those investors who have experience and expertise in investment as professional investors and qualified parties (cf. Article 4, paragraph 1, item 12 of MiFID 2004/39 / EC). In relation to retail investors the protection regulations set by MiFID are applied to all investors.

Professional investors are investors who meet the criteria set out in Annex II to Directive MiFID 2004/39 / EC (Art. 4, paragraph 1, item 11 of the MiFID Directive 2004/39 / EC). In accordance with Annex II to

Directive MiFID 2004/39 / EC, "a professional investor is an investor who has the experience, knowledge and expertise to make their own investment decisions and properly assess the risks involved."

In the category of "professional investors" we can include, inter alia, credit institutions, investment firms, insurance companies, Collective Investment Establishments, asset management companies, pension funds, national governments and regional authorities, public bodies that manage public debt, central banks, international and supranational institutions like the World Bank, International Monetary Fund, European Central Bank European Investment Bank and other similar international organizations.

We can also consider professional investors large private enterprises that cover at least two of the following size criteria:

- Total assets: € 20 million or more;
- Turnover: € 40 million or more;
- Equity: € 2 million or more.

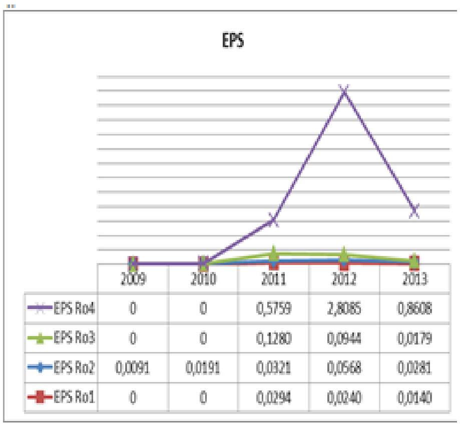
However, there are situations where even individuals can be regarded as professional investors, provided that they make a written request to the intermediary and the following condition is met: qualified parties are a category of professional investors, namely all parties included in the category of qualified investment professionals. Not all professional investors are included in the category of qualified investors.

In relation to this type of investors, certain rules that are imposed only for retail investors for protecting professional interests do not apply. This is detailed in art. 19, 21 and 22 of paragraph 1 MiFID Directive 2004/39 / EC.

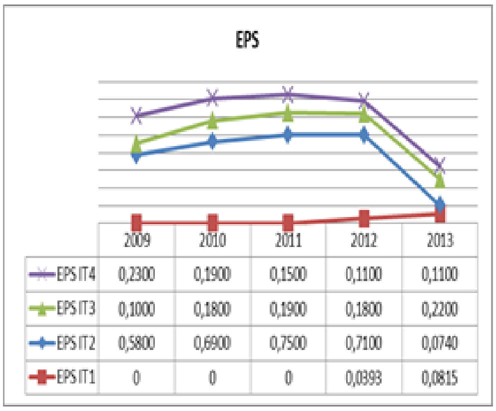
Regarding the evolution of EPS for companies listed on BSE it can be seen that for the 2009-2013 period this indicator has undergone significant variations, influenced by the events which characterized the reference market.

Thus in 2009-2010, as a result of the financial crisis, the interests of retail investors on BSE were seriously affected, but in the period (2011-2012) investors showed significant increases in income as dividends. The year 2013 was again bleak for the values of this indicator, as can be seen from the chart below.

Chart nr 5. Earnings per share evolution at the 4 retail companies listed at BSE and MSE between 2009 and 2013



	2009	2010	2011	2012	2013
EPS Ro4	0	0	0,5759	2,8085	0,8608
EPS Ro3	0	0	0,1280	0,0944	0,0179
EPS Ro2	0,0091	0,0191	0,0321	0,0568	0,0281
EPS Ro1	0	0	0,0294	0,0240	0,0140



	2009	2010	2011	2012	2013
EPS IT4	0,2300	0,1900	0,1500	0,1100	0,1100
EPS IT3	0,1000	0,1800	0,1900	0,1800	0,2200
EPS IT2	0,5800	0,6900	0,7500	0,7100	0,0740
EPS IT1	0	0	0	0,0393	0,0815

Regarding the evolution of EPS for retail investors from the Milan stock exchange can observe that 3 companies of the four grown almost constantly during the period 2009 - 2012, followed by a sharp decline in 2013. Surprisingly the 4th company is developing almost opposite EPS proportionally to the recorded values of the other retail companies.

As a result of comparing the two groups of retail companies that have been surveyed (RO - IT) one can observe that although they have different business areas, with different market conditions, the evolution of the most important indicators economic and financial which are subject to mandatory communication is relatively similar (the trend and not the values). This has generated similar effects and benefits (in the form of revenues) to retail investors. It is worth noting that it is possible for the Latin culture of the 2 countries influenced the way of communication with the external environment.

III. CONCLUSIONS

Identification of economic and financial indicators and their evolution after a severe economic and financial crisis with effects felt in all sectors, may constitute an important signal about the shortcomings existing reporting information for Romanian companies listed on BSE, which is a serious impediment in attracting foreign investors.

Deepening communication tools for retail companies with the external environment highlights how traditional communication tools must adapt to constant changes and the requirements of an economic context increasingly evolved since technologies, hyper competition, globalization, customer training, quick access to information are issues that have changed marketing scenarios.

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