

# PROFITABILITY OF AGRICULTURAL TRADE INTERMEDIATION SERVICES IN NORTH WEST ROMANIA

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**Abstract.** The intermediation activity in the agricultural trading, by its currently operating businesses, is contributing to the development of service economy mainly towards other businesses, at national level. Each participant develops its activity within a dynamic competitive environment. Active market participants are characterised by the varying number of participating companies, turnover rate, but mostly by means of their profitability indicator ratios. Profitability ratios – profit margin, return on assets and consumed resource profitability index – enable a characterisation of economic units by means of effect to effect or effect to effort ratios. Evaluating the batch competitors is a complex activity, that is achieved by using a bunch of work tools, information and methods. By using the turnover metric we are able to establish the competitive position of the market participant, but the results, that is, the effects, come to complete and enable us to establish, at one point, the average value of profitability ratios.

**Keywords:** turnover, profitability, average value, metrics, intermediation

## INTRODUCTION

The economic activity of agricultural trade intermediation is regulated by the national body of laws and is developed in a competitive environment. There is competition among participants to this intermediation service market, this is why the number of active businesses varies from one year to another. Agricultural trade intermediaries are those intermediaries that develop legal businesses, submit annual reports and financial statements. The types of businesses participating in intermediation are organised and operate according to the Trading Companies Law and the Regulations of the agricultural product market, as per Law 145/2014.

Turnover evolution and dynamics in all the active businesses subject to our research allow us to find the income of the assessed intermediaries, mainly rental companies. The size and assessed profitability of the investigated companies, as an effect of the direct influence of internal and external factors, is made concrete by both the absolute profit rate and the relative aspect of profitability ratios.

It is the quality of how these service providers in agriculture intermediation are managed that makes the rules of competition for the companies in this business field and reduces their number for the North West geographical development region of Romania. The ideal would be that these intermediation activities act as true auction markets for Romanian agricultural field.

## MATERIAL AND METHOD

The information processed in my research has been taken from the annual situations of economic agents, namely the Profit and loss accounts, reporting the developed

business under NACE code 4611 “Agents involved in the sale of agricultural raw materials, live animals, textile raw materials and semi-finished goods”, for the period included between 2011 and 2015.

The assessed batch of agents belongs to the North West region of Romania, i.e. 44 businesses based in the five counties of the researched region. The research was made on 15 intermediation service operators located in the counties of Bihor, Cluj and Satu Mare. We obtained this information from financial reports at [www.doingbusiness/financiar](http://www.doingbusiness/financiar)

The assessment method is the economic and financial analysis, namely the analysis of profitability by using performance indicators as follows:

- Profit margin analysis

One of the most relevant indicators of relative calculation of profitability emphasises the relation between turnover as an expression of the trading function, and the corresponding profit after taxation, as an economic result. The calculation method (Hristea, A.M., 2013) is:

$$Rc = \frac{Pn}{CA} \times 100 \quad \text{where:}$$

Pn - net profit

CA - turnover

- Analysis of return on assets

As an expression of the efficiency of using the company assets, this is important both for shareholders, as a reward for the risks they have taken, but mainly for managers, in order to maintain their positions on the service market and to reach the company performance targets (Siminica, M., 2010):

$$Rf = \frac{Pn}{Kpt} \times 100 \quad \text{where:}$$

Kpt - total assets

Pn - net profit

- Analysis of consumed resource profitability index

Also known as the cost profitability ratio, it reflects the correlation between an economic output and the costs incurred in order to achieve it (Hristea, A.M., 2013):

$$Rce = \frac{Pn}{C} \times 100$$

where:

Pn - net profit

C - total costs

- Analysis of income profitability ratio

It expresses the profitability of the activity developed by the company and reflects the profit per 100 lei income. It is a margin indicator that is formed after all the generated expenditures are covered. It represents the managers' contribution to the company's performance.

$$Rv = \frac{Pn}{TV} \times 100 \quad \text{where:}$$

Pn - net profit

TV - total income

## RESULTS AND DISCUSSION

The continuity and dynamics as development prerequisites for a company operating in the agricultural intermediary service field require the assessment of efficiency and profitability indicators via business profitability ratios, namely: profit margin, return on assets and consumed resource profitability index, for the agricultural intermediary activities developed by the agents assessed for this work.

### 1. Business units in Northern Transylvania

Romanian companies operating a business declared under NACE code 4611 “Agents involved in the sale of agricultural raw materials, live animals, textile raw materials and semi-finished goods” have recorded the following evolution from 2011 to 2015:

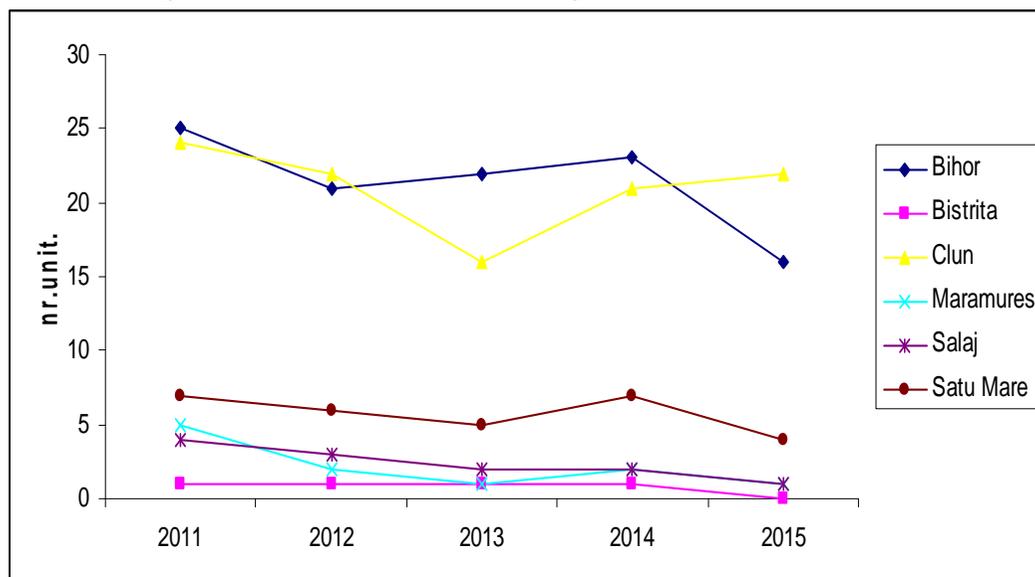


Fig.1 The dynamics of the number of businesses operated as “Agricultural trade intermediation services ”

The decreasing number of businesses in the region of Northern Transylvania went from 66 companies in 2011 down to 55 companies in 2012, then to 47 companies in 2013, followed by a slight increase to 56 companies in 2014, only to reach 2015’s just 44 units, that is, 66% of 2011’s count.

The research continued for a batch made of the companies recording a turnover of over 450,000 lei, i.e. 100,000 Euros in 2015. The reason was that the rest of the business units recorded losses during the research period or did not carry out a business. The batch analysed by means of profitability ratios includes 15 companies, namely 5 companies in Bihor County, 8 companies in Cluj County and 2 companies in Satu Mare County.

There is an overall net profit margin decrease of about 10.52% for the 15 researched entities in 2015, from 6,249,140 lei in 2014 to 5,591,757 lei in 2015, namely two units of the batch, based in Cluj county, recorded a loss in 2015.

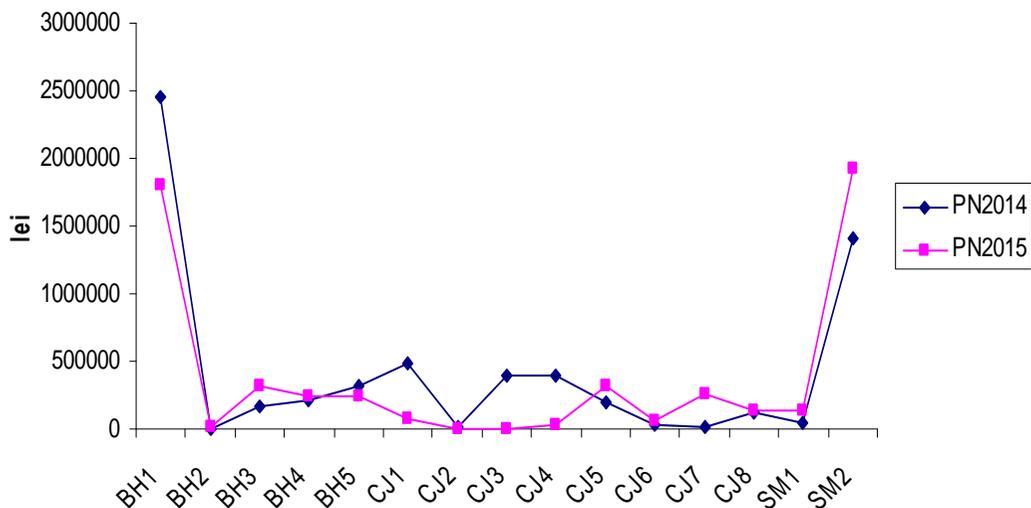


Fig. 2 The dynamics of the net profit indicator

Table 1

## Profit margin rate

Company	2011	2012	2013	2014	2015
AFRUNGO COMIMPEX SRL	0.03%	0.55%	9.97%	5.69%	3.65%
BOSCORO SRL	0	10.3%	2.48%	0.08%	0.41%
PENE EXPRES SRL	4.46%	2.69%	1.61%	5.15%	14.76%
PORKIDO SRL	41.49%	58.08%	33.05%	42.32%	45.94%
SENSIENT-FOOD-COLORS SRL	1.86%	2.22%	8.03%	9.52%	6.53%
AGROEXPERT SRL	5.94%	9.03%	9.34%	2.79%	0.29%
ALZARE SRL	3.58%	2.86%	2.28%	1.2%	0
ANDO IMPEX SRL	1.29%	3.94%	2.8%	4.97%	0
BRONTO COMPROD SRL	2.08%	0.12%	0.04%	2.11%	0.23%
CENTRUL AGROTRANSILVANIA SA	16.6%	7.26%	10.57%	8.89%	14.3%
CAMELEON TEXTIL SRL	1.55%	1.57%	1.8%	0.54%	1%
ILGEO COM SRL	0	0	0.91%	0.75%	10.77%
MEDICOM SRL	0.15%	0	1.53%	4.23%	6.15%
ANDOMARY SRL	14.41%	15.14%	26.05%	22.27%	13.64%
EAST GRAIN SRL	1.99%	1.02%	1.09%	1.8%	2.45%

Source: author's processing

The profit margin rate emphasizes the correlation between the turnover as an expression of the trading function of the business, and the corresponding profit after taxation, as the economic result of the difference from the income obtained from agricultural intermediation services and the costs incurred.

There was a 186.60% profit margin increase for the company Pene Expres SRL in 2015 as compared to its 2014 rate, and also a 7.88% increase as compared to the 2014's margin for Pordiko SRL, and for the company Centrul AgroTrasilvania Cluj SA there was a 62.16% rate increase in 2015 as compared to 2014. The rest of the businesses recorded a

margin decrease in 2015 as compared to 2014. Increase and decrease, respectively, are an effect of internal and external factors bearing an effect over cost increase and, implicitly, profit decrease or even loss. Moreover, the factors had an influence over incomes and turnovers, respectively, which indicates a diminished interest in managing such businesses, or even a deficient or absent marketing.

For an adjustment as accurate as possible of the trend developed by the deriving indicator – the average value of profitability ratio indicator for the 2011-2015 period – a third degree non-linear function has been applied.

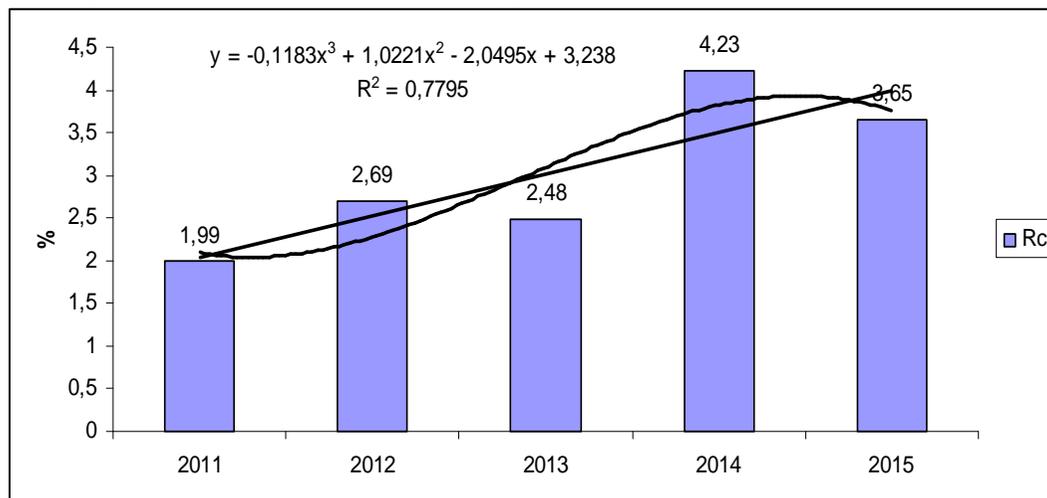


Fig. 3. Development of the average value of profitability ratio indicator

Table 2

### Return on assets

Company	2011	2012	2013	2014	2015
AFRUNGO COMIMPEX SRL	0.22%	5.45%	56.77%	24.61%	15.35%
BOSCORO SRL	0	124.96%	55.00%	2.07%	8.70%
PENE EXPRES SRL	56.17%	39.96%	35.36%	43.50%	57.64%
PORKIDO SRL	78.14%	99.95%	37.87%	42.97%	53.70%
SENSIENT-FOOD-COLORS SRL	99.91%	99.68%	99.91%	99.92%	44.39%
AGROEXPERT SRL	30.13%	34.55%	39.95%	7.18%	1.12%
ALZARE SRL	77.06%	35.22%	91.53%	7.74%	0
ANDO IMPEX SRL	31.70%	59.54%	32.89%	27.75%	0
BRONTO COMPROD SRL	14.72%	0.74%	0.22%	11.23%	0.93%
CENTRUL AGROTRANSILVANIA SA	69.21%	31.62%	36.08%	24.26%	31.48%
CAMELEON TEXTIL SRL	31.46%	32.66%	24.94%	9.79%	15.48%
ILGEO COM SRL	10.26%	19.39%	0	0	41.28%
MEDICOM SRL	7.97%	101.72%	45.72%	61.22%	40.78%
ANDOMARY SRL	58.05%	48.97%	43.41%	35.93%	49.16%
EAST GRAIN SRL	89.74%	75.06%	59.55%	62.66%	58.71%

Source: author's processing

Return on assets, by the correlation between net profitability, most often expressed by an absolute metric, and the invested assets as a source of finance, most often permanent assets, shows to what extent each monetary unit can create a plus of financial source designed for reinvestment. The increase of profit margin rates in 2015 as compared to 2014 is an effect of economic profitability increase, as well as of the net profitability of total income. There has been a 32.50% profit margin increase at Pene SRL, 24.97% at Porkido SRL, 29.76% at Centrul AgroTransilvania Cluj SA, 58.72% at Cameleon Textil SRL and 36.82% at Andomary SRL in 2015. The rest of the companies recorded profit margin decrease, and two of them even recorded losses in 2015.

The average value of return on assets rates for the 2011-2015 period requires a trend adjustment by applying the third degree polynomial function.

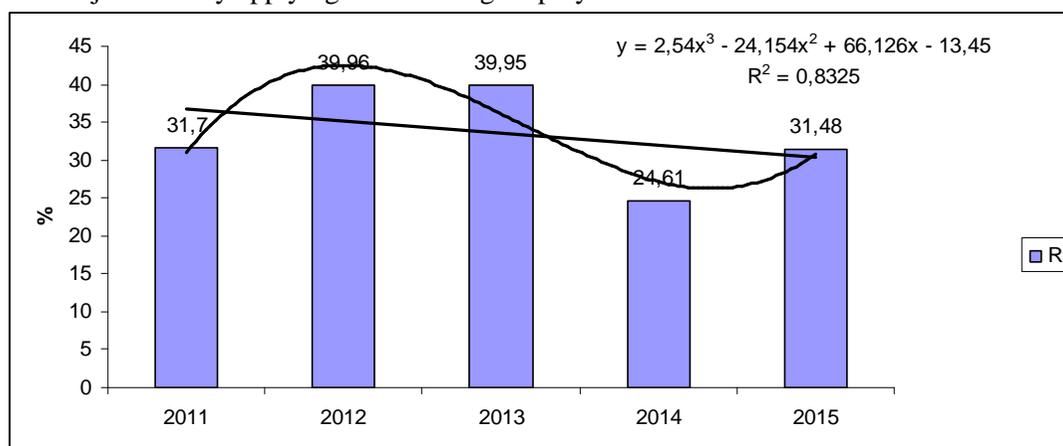


Fig.4. Development of the Average value of return on assets indicator

Table 3

Consumed resource profitability index

Company	2011	2012	2013	2014	2015
AFRUNGO COMIMPEX SRL	0.03%	0.50%	11.06%	5.99%	3.84%
BOSCORO SRL	0	7.89%	3%	0.07%	0.37%
PENE EXPRES SRL	4.68%	2.59%	1.64%	5.35%	17.26%
PORKIDO SRL	60.82%	194.03%	57.51%	84.18%	104.82%
SENSIENT-FOOD-COLORS SRL	7.19%	2.28%	8.73%	10.68%	7.04%
AGROEXPERT SRL	6.20%	9.64%	10.28%	2.77%	0.31%
ALZARE SRL	3.73%	2.94%	2.34%	1.21%	0
ANDO IMPEX SRL	1.30%	4.12%	2.89%	5.28%	0
BRONTO COMPROD SRL	2.03%	0.12%	0.03%	2.11%	0.23%
CENTRUL AGROTRANSILVANIA SA	15.64%	6.03%	5.46%	7.81%	12.56%
CAMELEON TEXTIL SRL	1.47%	1.47%	1.78%	0.51%	0.97%
ILGEO COM SRL	0	0	0.91%	0.76%	11.72%
MEDICOM SRL	0.14%	0	1.49%	4.35%	6.47%
ANDOMARY SRL	17.46%	18.50%	37.91%	29.59%	16.34%
EAST GRAIN SRL	2.03%	1.03%	1.11%	1.83%	1.98%

Source: author's processing

Cost effectiveness or margin rates should mainly interest the managers of the businesses currently managed by them, by the fact that they show the profit corresponding to income obtained per 100 lei of costs incurred, from intermediation services in the agricultural trade. In 2015 profit margins of the consumed resources increased for just a few entities in the researched batch, as compared to the previous year, that is, 2014. Therefore, company Pene Expres SRL recorded a 11.91% rate increase, Pordiko SRL recorded a 24.51% increase, Centrul AgroTransilvania Cluj SA recorded a 60.81% increase, and Medicol recorded a 48.73% increase. The rest of the companies had lower margins, and other two businesses recorded losses. The decrease of profit margins of the consumed resources is an effect of the 13.61% overall cost increase at the batch level in 2015 as compared to 2014, and the net profit indicator for 2015 was lower by 11.75% for the entire batch as compared to 2014.

The average value of consumed resource profitability index for the 2011-2015 period requires a trend adjustment by applying the third degree polynomial function.

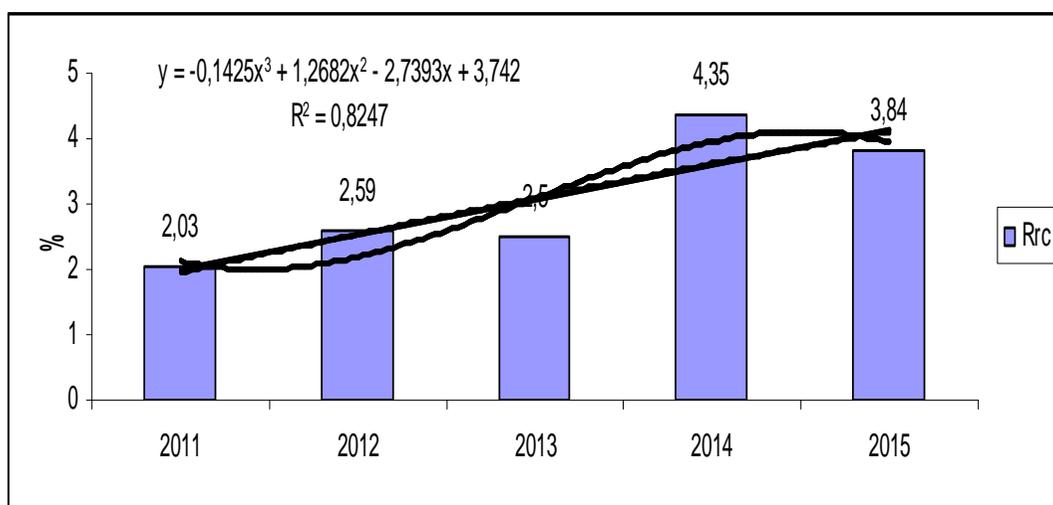


Fig. 5. Development of the average value of consumed resource profitability indicator

## CONCLUSIONS

This research focuses on individualising the three categories of profitability: profit margin, return on assets and consumed resource profitability index, for the 15 assessed companies in a total batch of 44 companies operating in the North West development region of Romania as “Agents involved in the sale of agricultural raw materials, live animals, textile raw materials and semi-finished goods”.

The analysis of profit margin of the studied companies strongly reveals the effect to effect and output to income ratios, respectively. The value of this indicator is increasing only where costs are very well managed by the business manager. A strong point for the companies having recorded cost cuts in 2015 as compared to 2014 and hence, a profit margin on the rise. A weak point for the companies having recorded cost increase for the mentioned periods.

The analysis of return on assets for the assessed companies reveals the effect to effort and output to asset ratios. The value of this indicator can be increasing only in the

situations where the assets were not decreased, and net profits increased as compared to the previous periods. A strong point for the companies whose 2015 results were higher than their 2014 results and a weak point for the companies having undergone losses in 2015 or recorded an output decrease. The analysis of consumed resources profitability index of the studied companies present the effect/effort ratio and output/cost ratio, respectively. The level of this indicator can be on the rise only in such circumstances where the effort does not presume any change in the sense of growth, and the output does not go down. A strong point for the companies whose costs decreased in 2015 as compared to 2014, and a weak point for the companies having recorded output loss or decrease because of cost increase in 2015, as compared to 2014.

The trend of the average value of profitability ratios indicators for the assessed companies records an oscillating movement, and its adjustment requires a non-linear function, generally of third degree.

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