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Cash Management: Optimize the Lifeblood of Your Business

The economic slowdown has turned into a full-blown recession. The uncertainty that comes with this turbulence will test your organization to the core. Doing nothing is not an option because passivity will only make things worse. In order to compete and to ensure that your company remains, not only in business, but also profitable you have to strengthen the effectiveness of your business processes. By optimizing your processes you can dramatically improve the prospects of your business.

The production of goods and services and the sales function are the core operational processes of any company. To achieve significant benefits, your organization has to align both processes to guarantee efficiency, consistency and transparency.

Accelerate Your Cash Inflows and Manage your Payables

Managing your sales process involves ensuring orders are delivered on time, payment is collected quickly, and revenue recognition conditions are met. Shortening the receivables conversion period – i.e. the time taken to convert sales into payments and deposits- is an important step in accelerating your cash inflows. Even small mistakes, such as last-minute orders, incorrect data or over-extended credit can add up and cause serious concern when financial statements are reviewed. In turbulent times, an effective order-to-cash process is a strategic priority when it comes to improving the bottom line. Identifying and stopping mistakes and bottlenecks is the challenge.

An important step to improved processes is to align and support your operational planning with an efficient sales controlling. Like any other control system, sales control requires the establishment of standards, the permanent evaluation of actual performance and the correction of any deviation in performance. An efficient sales controlling system gives you a strong argument to convince shareholders and creditors of the sustainability of your business success.

With cash in short supply, it is important to accelerate your cash inflows. The quicker you can collect cash, the faster you can spend it in pursuit of further profit. Accelerating your cash inflows involves streamlining all the elements of the cash conversion period. Then, hold onto your cash as long as possible by managing your payables. That means, quite simply, take as long as you're allowed--without incurring late fees or interest charges--to pay your company's bills.

Management of Your Receivables: Check Your Customers' Credit Worthiness

Credit checks for new customers and reviews for existing customers are important. To avoid cash crises, your receivables management should include methodical checks of the credit worthiness of all new customers before executing the first order, and a periodical review of the financial standing of existing customers. Remember that you want the kind of customer who pays you and pays you promptly. There should be one person, or a team, in your company who is ultimately responsible for supervising credit and for ensuring the prompt collection of monies due, and who is accountable if the credit position gets out of hand. Roles and responsibilities have to be clear to all team members.

The payment of accounts receivable is likely to be the most important source of cash inflows. At worst, unpaid accounts receivable will leave your business without the cash to pay its own bills. Late-paying or slow-paying customers will create cash shortages, causing your business to be late in covering its own payment obligations, spoiling its reputation with suppliers and creditors. When customers start taking longer and longer to pay their bills, it's time to involve your top management. It's amazing how much more effective a collection call from a company's owner, rather than an accounting clerk, can be.

Sources of finance

If there is a requirement for additional funds, either to meet short-term shortages or for longer-term development, there are several sources that can be considered, such as overdraft or short-term facilities with your banks. A possible solution to short-term cash-flow problems is factoring. Factoring allows getting cash immediately for your sales with a cut being taken by the factoring company.

Your Benefit

Many people forget when times are as good as they've been during the past few years, that the business world is cyclical and that you need money to make money. Therefore, sound cash-flow management is essential for any profitable business. Cash needs to be monitored, protected, controlled and put to work.

MFB Resultants will assist you in creating a professional cash management that is based on your expertise. The end result is an efficient process that will help you avoid cash crises and, in addition, grant you a commercial edge in all your transactions.

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Die Unternehmensberatung für Resultate

MFB Resultants - We Create Results.

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