

# Letting the River Run Free – key methods to get your cash-flow ‘flowing’ again

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October 2009

# Agenda

- 1. Today's imperative**
- 2. Debtor and creditor management**
- 3. Asset and creditor management**
- 4. Price and cost management**
- 5. Commercial applications**
- 6. Concluding comments**



## A thought to consider

**“It’s not the strongest or the most intelligent that survive but the most adaptable”**

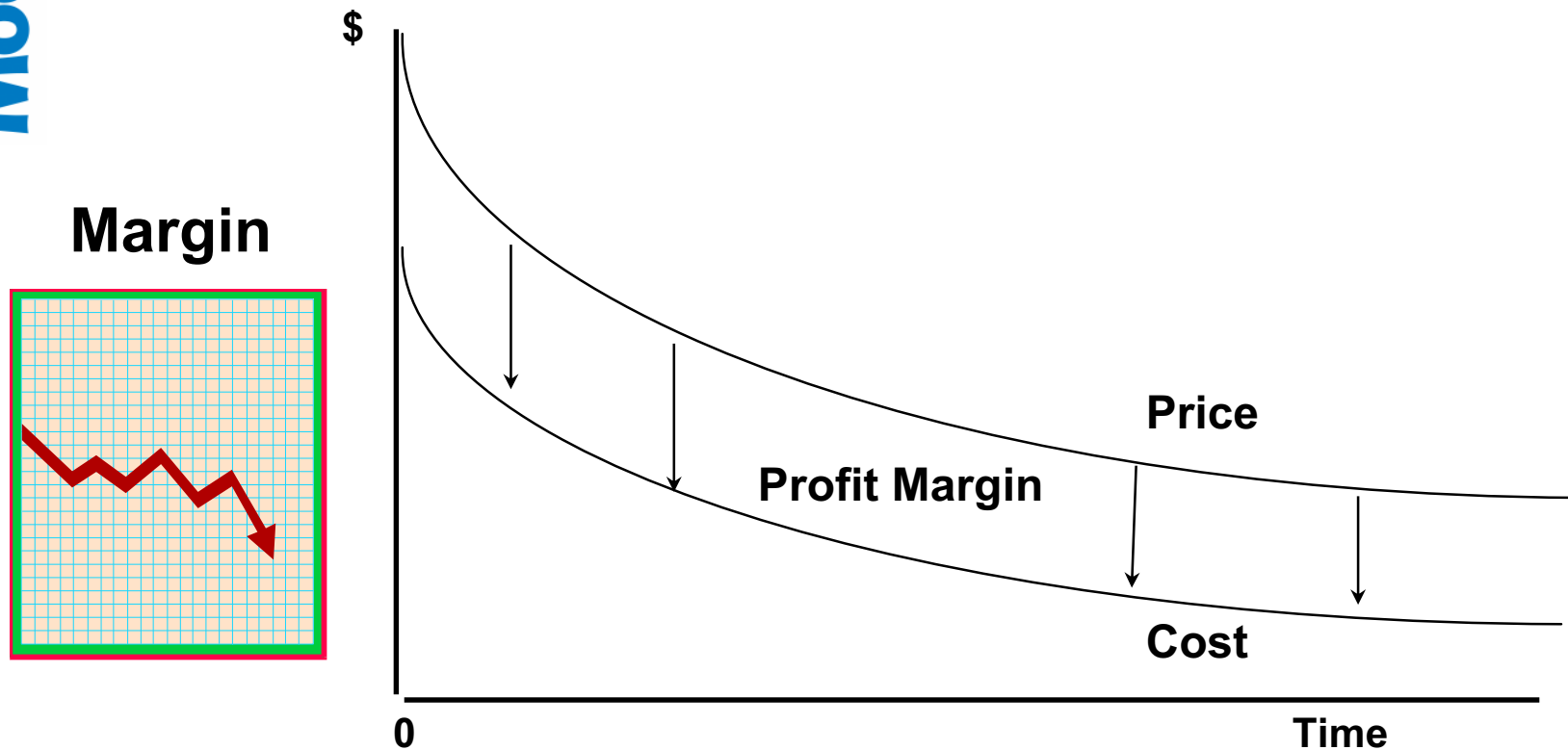
**- Charles Darwin**

**This is not rocket science**

**...but**

**common sense and a proactive  
nature essential!**

# Today's competitive environment



Never forget

Customers and suppliers

do not care

about your cashflow

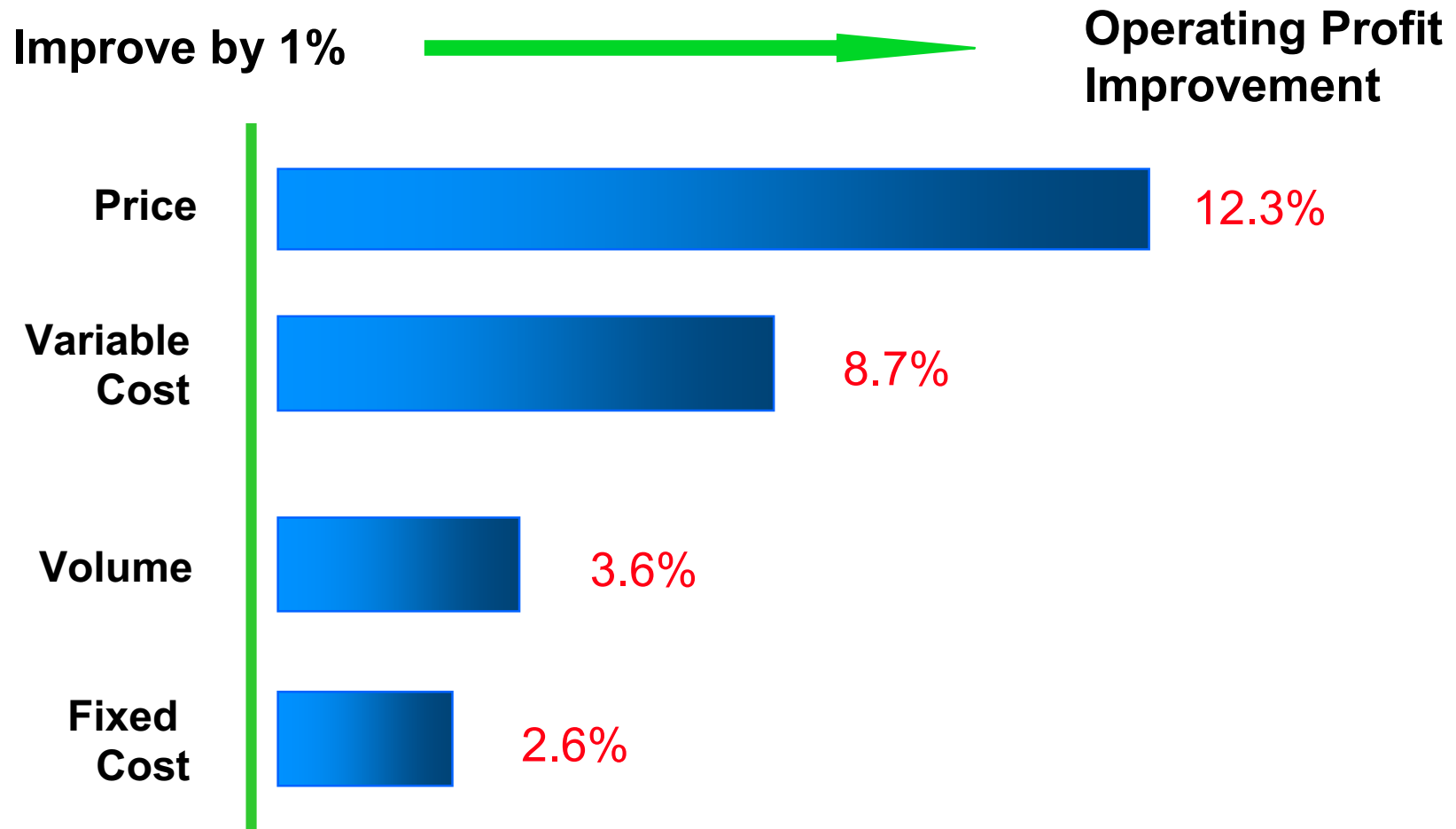
only about their own!



**Business is not about fairness**

**It is about Cash Flow and Profitability**

# The impact to the bottom line and cash flow



Source: L.E.K.



# Asset and Creditor Management

## Creditor management

- Disciplined management
  - Use suppliers to finance activities – potential risk to the business
- Develop and manage supplier relationships
- Negotiate / structure payment terms /conditions
  - Seek more favourable terms

## Creditor strain

- Heavy reliance on the use of creditors to finance business activities
  - Fraught with problems
  
- Value of ‘overdue element’ of creditors

\$000s / Month	<u>1</u>	<u>2</u>	<u>3</u>
Current Assets	420	420	420
<u>Less</u> Normal Creditors	(160)	(160)	(1600)
Net Current Assets	260	260	260
<u>Less</u> Overdue Creditors	50	150	260
Net Current Assets	210	110	Nil

# Debtor management

- Disciplined management
  - Smart KPIs
- Trading terms
- Structured payment terms
- Develop and manage customer relationships
- Factoring
- Financing options for customers
- Payment incentives
  - Discount
  - Other

# Asset Management - 1

- Reduce / delete all surplus /lazy assets
  - Evaluate asset requirements of the business
- Reduce inventory levels
- Improve inventory turnover rates
- Options for financing inventory
- Change ordering / buying patterns
  - Size
  - Frequency
- Lease/rent vs. Buy

## Asset Management - 2

- Extend /reduce asset life
  - Cost of maintenance vs. Acquisition
- Downsize the business
  - Build a sustainable 'ongoing' base
- Restructure the financing of the business
- Manage and monitor asset performance
  - KPI report

# Customer Analysis

## Before:

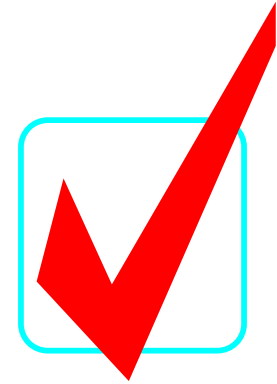
- Sales - \$34 million p.a.
- Average no. of customers - 500-600 per month
- Average order size:
  - 90% customers 250-1,000 kgs
  - 10% customers >1,000 kgs

## After:

- Sales - \$18 million p.a.
- Average no. of customers - 20-40 per month
- Average order size - 100% customers >1,000 kgs

## Benefits

- Substantial reduction in overhead costs
- Simplification of business reporting
- Reduction in inventories
- Reduced risk to Bad Debts
- Increased Cash Flow
- Improved operational efficiencies
  - reduction in operating costs
- Focused business orientation
  - established strategic relationship with customers
- Reduction in Capital Expenditure





# Price and Cost Management

# Focus effectiveness

## Cost Focus

Important but less efficient and effective

## Pricing Focus

Delivers immediate and substantial benefit

- Improved cash flow
- Increased profitability

Costs do not come in a one-size-fits-all category

There are different costs for different purposes depending on the question that is being asked. Moreover, cost information that is prepared for one purpose may be totally inappropriate for another

## Cost reduction / management

- Can take time to implement
  - Often slow and less effective
- Can have negative impact on cash flow in short term
- May require initial investment
- Too much focus on cost reduction
  - Corporate anorexia
  - can hurt the business
  - 20/80 rule
- \

## Price vs value

“A cynic is someone who knows the price of everything but the value of nothing.”

Oscar Wilde

### **The Fluctuating Value of an Umbrella**

Why is its value different in dry weather compared to when its raining?

The cost to make it remains constant – the value we place on it however is quite different



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# Power of pricing

Per \$	As is	Reduce O/H by 10%	Increase Price by 5%
Sales	100	100	105
Gross Margin	40	40	45
Expenses	30	27	30
E.B.I.T	10	13	15
% Change in EBIT		30%	<b>50%</b>

## alternative pricing strategies

- Mastige
- Surcharges
- Resizing
- Multi-dimensional
- Menu
- Discount
- Premium
- Psychological
- Line
- Optimal
- Captive
- Bundle
- Promotional
- Geographical
- Value



# Commercial Applications

# Commercial strategies - 1

## 1. Changed Debtor Management Approach

- 95% paid within trading terms (previously 30%)
- Changed T & Cs
- Educated customers (not easy)
- Acted commercially – said NO!

## 2. Tender Fees

- Introduced small registration fee for each item submission
- Reduced ‘bogus’ supplier capability claims
- Reduced processing time and costs

## Commercial strategies - 2

### 3. Changing Customer Ordering Behaviour

- Introduced minimum order fees
- Simplified processing inputs and reduced costs
- Eliminated small and costly orders
- Improved cash flow

# Concluding Comments

# Think differently



**Opportunities are only limited by your way of thinking**

## Concluding comments

- Be disciplined in your approach to debtor / creditor management
  - Learn to say NO!
- Look outside your industry for innovative/adaptable ideas
- Develop an effective performance monitoring system that tells you how well your assets are being managed
- Take a more active role in price management within your organisation
- Determine what is your business sustainable level of activity
- Promote active cost management practices not cost reduction
- Educate your business on commercial considerations and the impact it has on cash flow

**Moorestone.**

**THANK YOU**

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