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Strategic cash flow management

by Josef Busuttil

The world economy is currently far from rosy and indicators show that the worse is yet to come. The US is expected to experience a double dip recession, the euro zone is struggling to combat their worst ever debt crisis and in the past few days markets slipped to low levels.

Economic turmoil affects businesses negatively since demand for products and services dwindle. During these difficult times, firms should keep in mind that cash flow is critical for the survival of a business and they should invest and focus on strategic credit management, which is the policy that helps a business organisation manages its cash flow.

When speaking about cash flow management, one would immediately think about the collection of money, late payments, Days Sales Outstanding, and bad debts. But sound cash flow management entails much more.

In this day and age, firms should develop their strategies in a holistic and comprehensive manner. All departments and business functions should contribute and work as one team. And the credit function is not the exception to this rule. The credit function is central to an organisation and has a lot to offer for the survival and long-term profit of a firm.

The role of the credit function is far from crunching numbers and making boring collection calls. An effective credit function's role is that of meeting customers' needs and demands. The credit practitioners should be those skilled people who strive to find ways of saying "yes" to profitable sales. They should be trained to gain and sustain competitive advantage in a turbulent business environment where customer loyalty does not exist any longer.

Nevertheless, many businesses still consider the credit department as the necessary evil function. They still consider the credit practitioners as those people having the sole role of collecting money. Other departments still believe that the credit practitioners are those who are experts in stopping sales and hampering commissions due to the sales people.

The reality should be much different. The credit function is a people's function. The credit practitioners are in direct contact with customers. Their role is to get to know their customers and their expectations in order to keep them buying and make regular payments. The credit function is also central within a business organisation. It meets regularly with its peers in other departments, such as the sales, distribution, warehouse, finance, IT, legal, and other business units. Therefore, if appropriately trained, the credit staff can be instrumental to identify gaps in the internal systems of an organisation and can serve as an effective tool for continuous improvement in the business process and development, which would ultimately help to minimise the cost of doing business.

Nevertheless, the credit function should be supported by the senior management team in order to render its desired effectiveness to a firm. The strategic cash flow management policy and procedures should be written down, well communicated with all the stakeholders and have all the necessary backing of the CEOs. They should also be implemented efficiently and this process requires to address the following set of questions:

• Where is the credit management team when the corporate strategies are being developed in the CEO's board room?

• What contribution is the credit function giving to the market segmentation and targeting exercise? Is this exercise being solely undertaken by the marketing team?

• Is there synergy between the sales and the credit function? If no, why?

• Does the sales team acknowledge the role of the credit function? And does the credit team acknowledge the role of the sales team?

• Is there an effective policy leading to efficient procedure in place when customers request credit? How flexible is this policy? How well communicated is it?

• Are the right people employed for the job?

• What level of customer relationship (especially with the key customers) exists?

• What performance measurements are being deployed? Are they proper and adequate for today's hostile business environment?

A final but central question:

• How can any one expect the people collecting the firm's dues and completing the sale be successful if the credit function is only there at the end of the sales process to collect the money and is absent during the development and implementation of the business strategies?

Competition is increasing, sales are shrinking, product differentiation is becoming more difficult, margins are getting thinner, customers are more knowledgeable but cash flow is critical for the survival of a business more than ever before!

The CEOs and business owners should acknowledge the important role of the credit function in today's business world. The credit people, just like the sales team, are those who know the market well. They know who are the "profitable" customers to target.

But the credit people should be motivated to contribute with their knowledge and experience when strategies are being developed. One may wonder why such an internal resource is often neglected and not fully utilised!

Mr Busuttil is the director general of the Malta Association of Credit Management (MACM). This is a not-for-profit organisation, providing a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses.

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