

Cash and stock management



In the aftermath of the floods, many businesses are finding that they are struggling to collect cash. Although no business is totally immune to the tragedy that has just unfolded, a company that manages its cash well will be best placed to cope as the state recovers.

Effective cash management is about four things

- Knowing how much cash the business needs and when.
- Being able to adapt your spending plans to meet new circumstances or expectations.
- Understanding how to maintain the right cash balance – too little could stifle operations while too much prevents cash being used productively.
- Knowing how to accurately monitor your cash flow.

The following questions will help you consider and manage the impact of the flood on your cash flow

- Do you have cash-flow projections?
- Do you know what the abnormal flood costs will be?
- Do you know if you can defer ATO payments/payment arrangements?
- Are you aware of the government grants and assistance packages available?
- Can you defer or cancel any capital expenditure plans?

- Do you arrange for all payments to be made on fixed dates to facilitate accurate cash flow analysis and bank balance planning?
- Do you know what your unused banking facilities are?
- Are your financial transactions timed to minimise overdrafts and maximise the investment of surplus cash?
- Are surplus funds invested promptly and are arrangements reviewed to ensure the best rates of return?
- Have you renegotiated trading terms with key suppliers?
- Have you considered shortening your terms of supply to your customers while being sympathetic to their current circumstances?
- Are cheques and cash received banked promptly?
- Have overdraft terms been reviewed to ensure the best rate in relation to the security offered?
- Do you have the capacity to raise additional funds?

Maintaining minimum stock levels

Effective stock control is just as critical as sound cash management. Some of the steps flood-affected businesses should take to ensure their stock levels are reinstated are:

1. Know what your minimum stock level should be and which products it should include.
2. Where products are unavailable but are in demand from customers, consider obtaining similar substitutes in the products range. It is critical to ensure you communicate the reasons for the change to your customers.
3. Where possible support any business that you normally deal with that has been adversely affected by the floods. This will not only help them get back on their feet, but should build loyalty with you as a supplier.
4. Discuss with key suppliers a framework for a disaster recovery plan to prepare for unexpected future events.

Reassessing stock levels also provides an opportunity to look at current stock holdings and move overstocked items to convert excess stock into cash.

The current goal should be to return to minimum stock levels and manage your inventory appropriately from that point on.

If your stock has been completely destroyed, rather than rebuild to minimum levels perhaps take into account some of these corrective measures to improve the performance of inventory management systems:

- Ensure stock levels line up with historical sales volumes.
- Consider introducing a new inventory management system.
- Consider reopening your business with a limited stock range and gradually add items as demand sees fit.
- Improve production planning.
- Arrange consignment inventory facilities with suppliers.
- Deploy alternative production methods to minimise lead time (if your business is manufacturing).
- Regularly assess the inventory mix to identify under-stocking or over-stocking of particular items or unusual trends.
- Evaluate the option of outsourcing your distribution function.

If you would like to discuss this further, please contact your regular PwC contact or phone Jason Daniels on (07) 3257 8536.