White Paper

How to Save Cash

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How to Save Cash

"Companies can boost liquidity by letting less cash go out of the door. This can happen through canceling plans to buy back shares using excess..."

Today's global economic situation is such that many companies urgently need more cash to boost their liquidity and ward off the economic ills. Preserving cash in such formidable times will present managers with an unprecedented test of their skills.

Banks faced with huge difficulties of their own have tightened their purse strings, lending less and driving up the cost of credit to consumers and corporations. That is compounding an already grim prognosis for the world economy.

Opinions differs as to how long and deep the global slow down might be, but the combination of a battered banking system and shell-shocked consumers mired in debt suggests it could be particularly hard for many businesses, so bosses are rushing to secure as much as they can now to see their companies through the downturn.

A recent report from a global leading investment bank shows that since the credit crisis began the returns of firms with ample liquidity have out performed by 7% compound to cash strapped industry peers, before the crunch, cash-rich firms were generally under performing. One thing not to take for granted, even for companies with strong balance –sheets, will be finding difficulty in access to external capital. The foreseeable future, bank credit is likely to be harder to come by and will certainly be more expensive than when the financial crisis began.

How to save cash

Companies can boost liquidity by letting less cash go out of the door. This can happen through canceling plans to buy back shares using excess cash, or trim dividends, which are unpopular with investors, stretch at the payment as bank debt, lookout for opportunities to refinance existing loans early, give themselves greater financial flexibility.

Another area that needs to be put under the microscope is working capital or the cash that gets tied up in day to day

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operations. The first place to look for this money is in company's inventory. All to often, poor sales forecasting and production planning means that a lot of cash ends up trapped in a company's warehouse in the form of unwanted products or new materials. Companies can save as much as 15-20% working capital requirements by improving the lines of communication between executives responsible for sales, procurement and production.

Companies seriously need to look into their inventory turn over ratios, account receivables, product shelf life, production mix, fixed assets performance.

In downturn, same companies might be tempted to squeeze suppliers. But they should think twice. Many sophisticated supply chains now stretch across countries and rely on just in time delivery. The slight glitter can cause chaos. To make matter worse many supplies have also been hit by the credit crunch and are in need of more cash by themselves.

The problem with working capital initiative is they can take a long time to payoff, yet companies take the initiation on high priority as this makes companies remain flab and become leaner and smarter to survive in difficult times ahead.

So is all this hyperactivity encouraging? The answer is yes. Companies that remain standing through brutal recession will be those that name taken the phrase "cash is King" to heart. Yet this is a risk that in a rush to build up their cash towers, cut could be made just and too deep when a more targeted approach to surgery is needed. For instance a recent article in the Mckinsey quarterly points that technology budgets are a favorite place to make cuts, but indiscriminate chopping will be more damaging than ever before because IT systems are now so tightly interwoven with everything from supply chain management to the determination of pricing strategies.

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