A New Year's Resolution for businesses

by **Josef Busuttil**
MBA (*Henley*), DipM MCIM, FCICM

Tel +356 9986 8662
e-mail josef@jbconsult.biz

This year is coming to an end and this brings us to the time of the year when many people evaluate what went wrong or should have gone better during the year and aim to set goals and objectives for a more prosperous new year.

This year was not easy for businesses and commerce. We have witnessed a hostile international commercial environment. Big companies went bust, some economies were rescued by bailouts, governments announced hefty austerity measures followed by violent protests in the streets, and other countries are in the red and may ask for financial assistance soon. This economic and financial turmoil increased the unemployment rate in these countries with all its negative affects and consequences on businesses.

'No man is an island' can be translated to 'No country is an island', as economies depend heavily on each other. Although a particular firm may have not suffered from an economic recession, it should still keep in mind that these turbulent economies may however have an impact on their trade, hence cash flow and profit.

When planning for the year to come, business strategists should therefore, focus on protecting their cash flow and long-term profit more than ever before. Irrespective of how innovative and advantageous the business plans may be, they all depend on the availability of adequate cash flow – ***the lifeblood of a business***. If an organisation lacks healthy cash flow, the plans get no further than ideas on a piece of paper at best or overtrading at worst.

Cash flow and profitability are often misunderstood and confused. These two terms have totally different meanings. People may associate poor cash flow with a business organisation experiencing declining sales. But poor cash flow can happen to a business with sales bursting through the roof.

Cash flow simply refers to the ability to pay the bills on time and on a regular basis, whilst profitability is the net difference between the total amount a business earns and all the costs involved to run the business.

To earn a profit, most businesses have to produce and/or deliver goods or services to their customers before they collect payment. We call these credit sales. Provided that these businesses have enough cash reserves to pay their suppliers, salaries, rent, taxes, bills and other costs, and the payments received are greater than the total cost of sales, then the business is said to be profitable. Additionally, sound cash flow is not just the cash inflows and outflows, but is also dependent on the timing of these cash movements.

Irrespective of the profit potential, unless the business has adequate cash flow to operate with, it will not trade effectively. Therefore, unless the business has the cash reserves that meet all the costs regularly and on time, it will be unable to deliver its side of the bargain, receive payments, and make a profit.

Selling on credit is the oil that keeps the wheel turning, as it supports sales that would otherwise be lost. But businesses should understand that credit helps businesses to sustain long-term customer relationships and stay customer focused at all times, which in return help to maintain sound cash flow.

Credit practitioners have an important role to play here. They are in direct contact with customers and therefore, they should strive to enhance their internal credit processes and procedures in order to provide good customer service by which they can protect cash flow and profit for their business.

The old fashioned focus on risk mitigation is something of the past. The credit function is a people's function that can be valuable to improve the perception of the firm in the customers' minds. Thus, gaining and sustaining competitive advantage, which is the name of the game in today's turbulent markets. Credit practitioners should never forget that a business is competing both when it sells its products or services and also when it 'completes the sales' – collecting money from customers. Therefore, managing credit is both a science and art!

This does not mean that credit does not have its risk factors. Of course it does, but credit risk analysis and control is only part of the whole credit process. In today's commerce, the credit people should be skilled to identify the profitable customers before granting them credit whilst be able to keep their existing credit customers buying and current. However, this requires skilled employees and intuitive credit information. Education, staff development and proactive credit information system is the way forward to ensure sound cash flow and secure long-term profit.

Therefore, my suggestion to the business strategists is to give cash flow high priority - *Poor cash flow can be the death of an otherwise healthy business!*

Josef is the Director General of the Malta Association of Credit Management and President of the Federation of European Credit Management Associations. He is also a Credit Management Lecturer and Coach.

He obtained his MBA from Henley Management College, Member of the Chartered Institute of Marketing (UK) and Fellow Member of the Chartered Institute of Credit Management (UK).

He has contributed with intuitive workshops and presentations addressed to various business people worldwide. Josef is a regular contributor of business articles to business press.