

Maximise working capital and build on retail momentum

The latest retail trade sales figures released by Stats SA reflect a massive [increase of 95.8%](#) from a year earlier. While this is largely attributed to last year's strict lockdown measures which affected non-essential retailers, this is the strongest increase in retail activity on record, and therefore the optimal time for retail businesses to capitalise and unlock real value from their working capital to sustain or grow their businesses.



Source: Getty

When it comes to working capital, every rand is a soldier. Meaning that every cent you spend needs to go to battle for you and work as hard as it possibly can.

Dov Girnun, founder and CEO of alternative finance provider, Merchant Capital, says that many small businesses are changing their day-to-day behaviours in order to leverage working capital effectively across their business, making them top performers in their respective industries.

“Putting some fundamentals in place gives your company the best chance of unlocking the most working capital, but it also requires discipline and implementing behavioural change at a company culture level.”



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Below, Girnun outlines the four key strategies that can help your business maximise working capital and make the most of this ripe retail trajectory.

1. Invest in tech to shorten the cash conversion cycle

Sending invoices by mail takes too long. By simply invoicing on email, the billing cycle automatically speeds up and collection happens faster.

A vendor portal (a platform that allows businesses to connect and collaborate with their third-party suppliers on the internet), will also give your suppliers electronic access to invoices, allowing for electronic payments. This in turn will reduce dispute

times. This also empowers companies to report in a timelier way and implement proactive steps to take advantage of supplier discounts or resolve account issues.

2. Ensure financial functions are optimised

At any given time, systems need to be functioning at full capacity in order to reduce error rates on invoices and to send invoices out on schedule. It also refers to effective follow-ups for collections.

Good practice includes negotiating favourable rebates and terms with customers, issuing purchase orders for new orders and utilising available volume rebates. As well as benchmarking your supplier contracts against relevant industry standards. This also includes making sure your inventory is consistently analysed and individual product profitability is carefully considered. In addition to this, all dead stock needs to be offloaded.

3. Cash flow reporting – making it visible

If you really want to ensure your cash management culture is effective, you have to visibly track it every month. A key measure here is through forecasting. This involves looking at both income and cash flow statements and then linking this to your cash flow forecast to key working capital metrics on your balance sheet. Namely DIO (days inventory on-hand), DSO (days sales outstanding) and DPO (days payables outstanding).

You also need to include all capital expenditures, debt repayments and any other cash flows operating so that you understand your bigger picture cashflow requirements. The best way to do this is through automating your reporting systems. These should be integrated with your profit and loss statements and balance sheet so you can track performance at all levels.

4. Consider your cash flow obligations

Every business has both short- and long-term cash flow obligations. Your short-term obligations refer to the daily expenses that occur at an operational level. The long-term ones are usually about capital project requirements and term debt maturities.

Effective cash flow management understands how to match the different sources of funding with working capital flow. That way there is cash on hand to fulfil obligations as and when they arise.

The bottom line

“During tight times, cash management is essential to free up cash flow. But this kind of rigour shouldn’t only be implemented during times of uncertainty. It should rather be implemented into the heart of the company culture throughout the year. This will free up cash that is essentially trapped in your balance sheets,” says Girnun.

"It often comes down to effective cash management and a shift in thinking. This can include adopting a much more prudent approach to investment or slimming down costs across the business. Resulting in an increase in profitability, greater control and the flexibility required to remain competitive," he concludes.

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