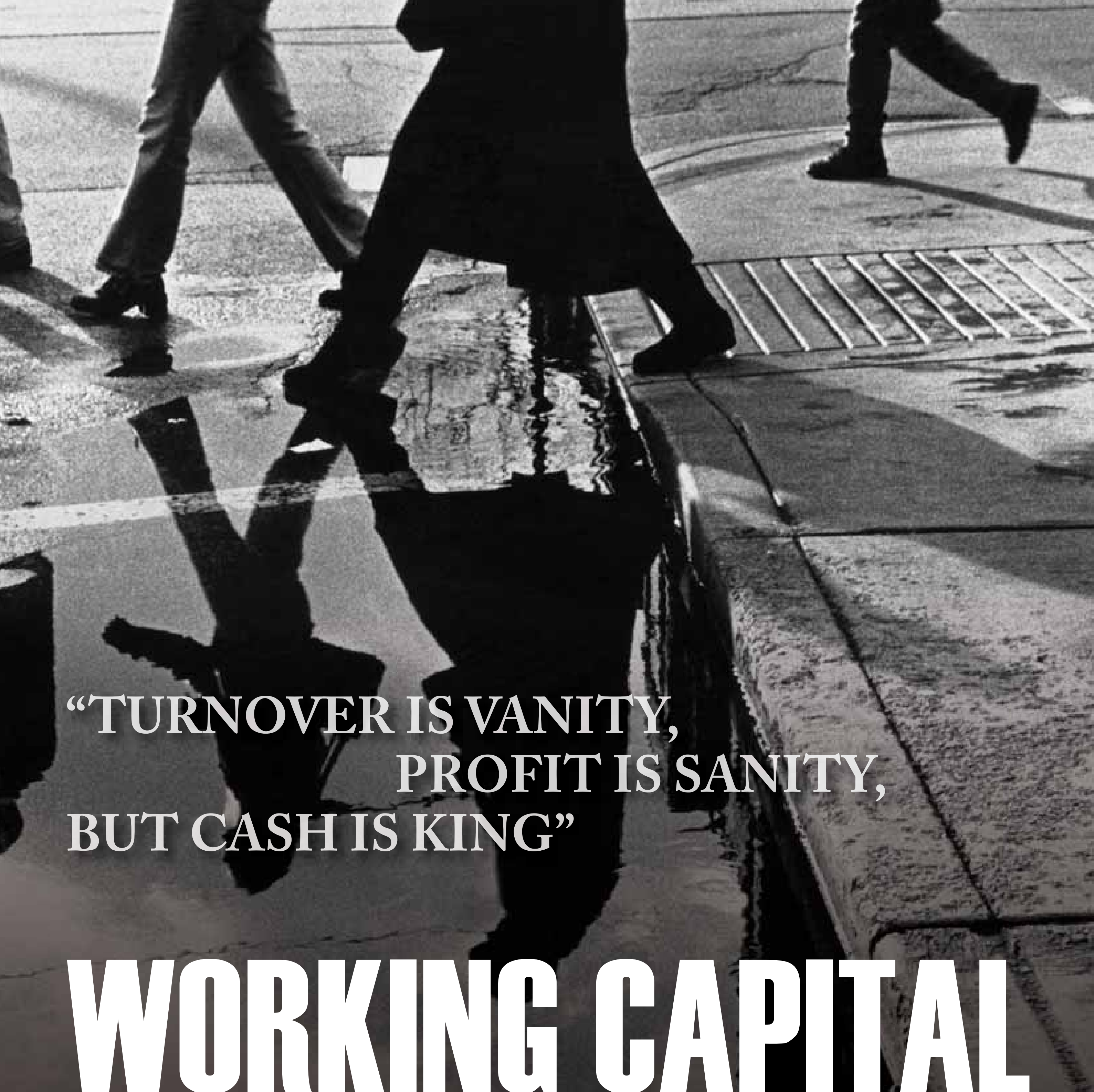
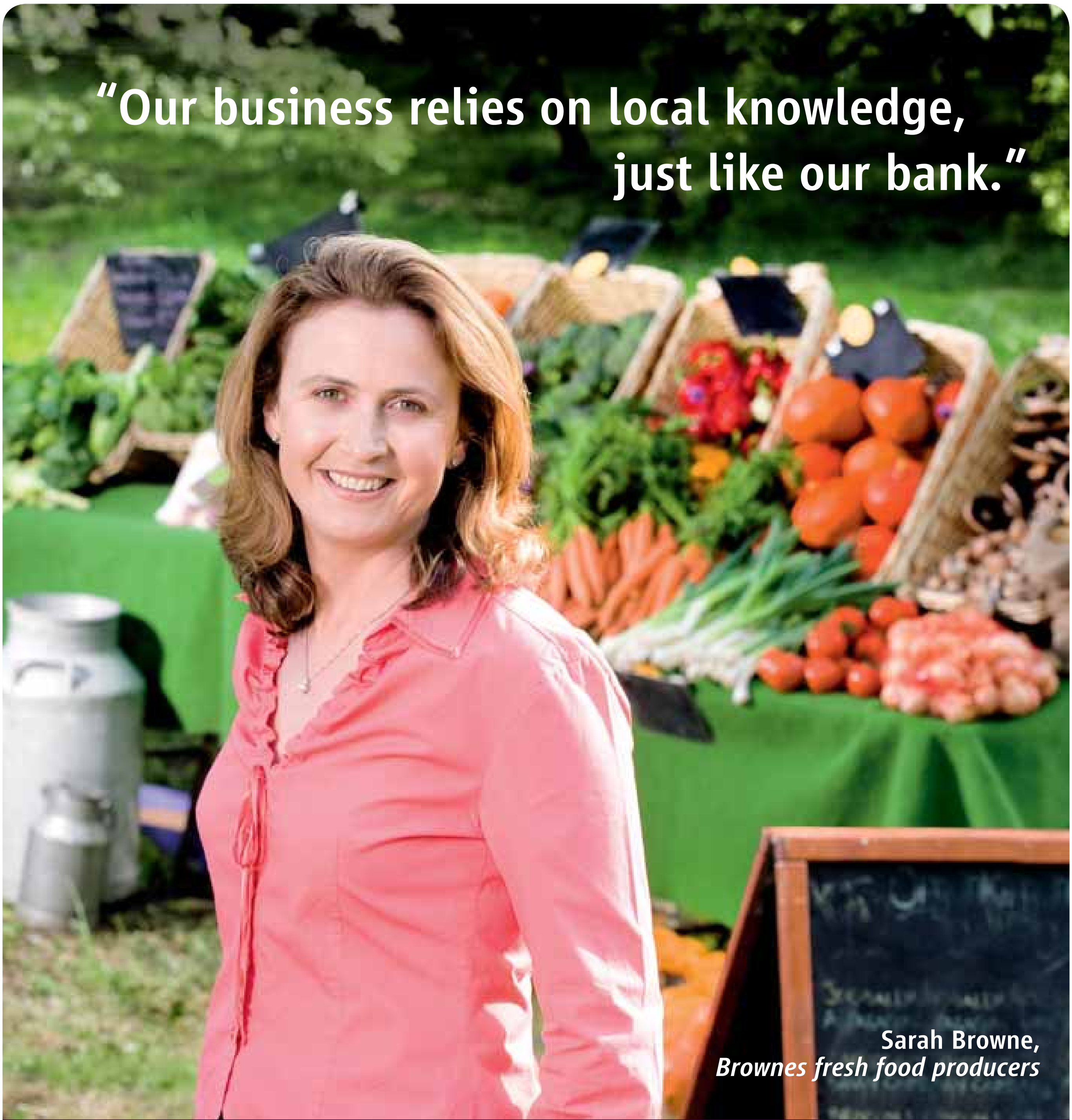


“TURNOVER IS VANITY, PROFIT IS SANITY, BUT CASH IS KING”

WORKING CAPITAL MANAGEMENT

OWNERMANAGER GUIDE

IN ASSOCIATION WITH AIB



Brownes is just one of the thousands of start-up businesses who bank with AIB.

Talk to our experts about our Business Start-up Package.

Talk to us today | 1890 47 88 33 | www.aib.ie/business

be with AIB

Terms & conditions apply. The featured customer has received a gratuity on behalf of AIB for their time in making this commercial.
Allied Irish Banks, p.l.c. is regulated by the Financial Regulator.

THE THOUGHTS OF LEADERS

‘Be sure when you're implementing cost cuts that you are cutting the fat from the business and not the muscle’

Jack Welch

BUSINESS & LEADERSHIP
SHARING INTELLIGENCE

www.businessandleadership.com

HOME LEADERSHIP MARKETING TECHNOLOGY OWNER MANAGER LIFE REPORTS EVENTS VIDEO AUDIO

FOREWORD

Effective management of working capital has probably never been so important for Irish businesses as it is at present. While all the current debates revolve around a lack of available funding, working capital expert John Mardle argues in these pages that owner managers must also take some responsibility for the efficient management of their own cash and capital. And, he warns, it is a mistake to wait for a business recovery before trying to improve working capital processes, just as it is to use growth as an excuse to ignore its importance.

In this Guide we have asked the experts what advice they can offer to businesses that need to free up cash for current operational costs, and also to outline the working capital strategies they need to put in place now, in order to be in a strong position when the recovery finally arrives.

It is a sad and unpalatable truth that there are businesses that simply won't make it through this downturn, but many of those that will will have a deep understanding of their working capital cycle and the real drivers behind it. We hope the articles featured herein will inspire some among you to tackle what is a crucial business issue for 2009 … and beyond.

Ann O'Dea
Editor

Editor: Ann O'Dea
Production editor: Deirdre Nolan
Sub-editor: Bernice Barrington
Publishing assistant: Emily O'Conor
Creative director: Ruth Humphreys
Art director: Michelle Gregan

Sales director: Trish Murphy

For all advertising and sponsorship queries, contact Trish on +353 1 6251425 or email tmurphy@businessandleadership.com

Publisher: Darren Mc Auliffe

Owner Manager Guides are published by
Business and Leadership Ltd
Tel: +353 1 6251480
Email: info@businessandleadership.com
Address: Top Floor, Block 43B,
Yeats Way, Park West Business Park,
Nangor Road, Dublin 12.
© Business and Leadership Ltd 2009

BUSINESS & LEADERSHIP
SHARING INTELLIGENCE

www.businessandleadership.com

GET MORE GREAT TIPS – IN VIDEO AND AUDIO FORMAT – ON GETTING YOUR MANAGEMENT OF WORKING CAPITAL RIGHT IN 2009 AT **WWW.BUSINESSANDLEADERSHIP.COM**

CONTENTS

38

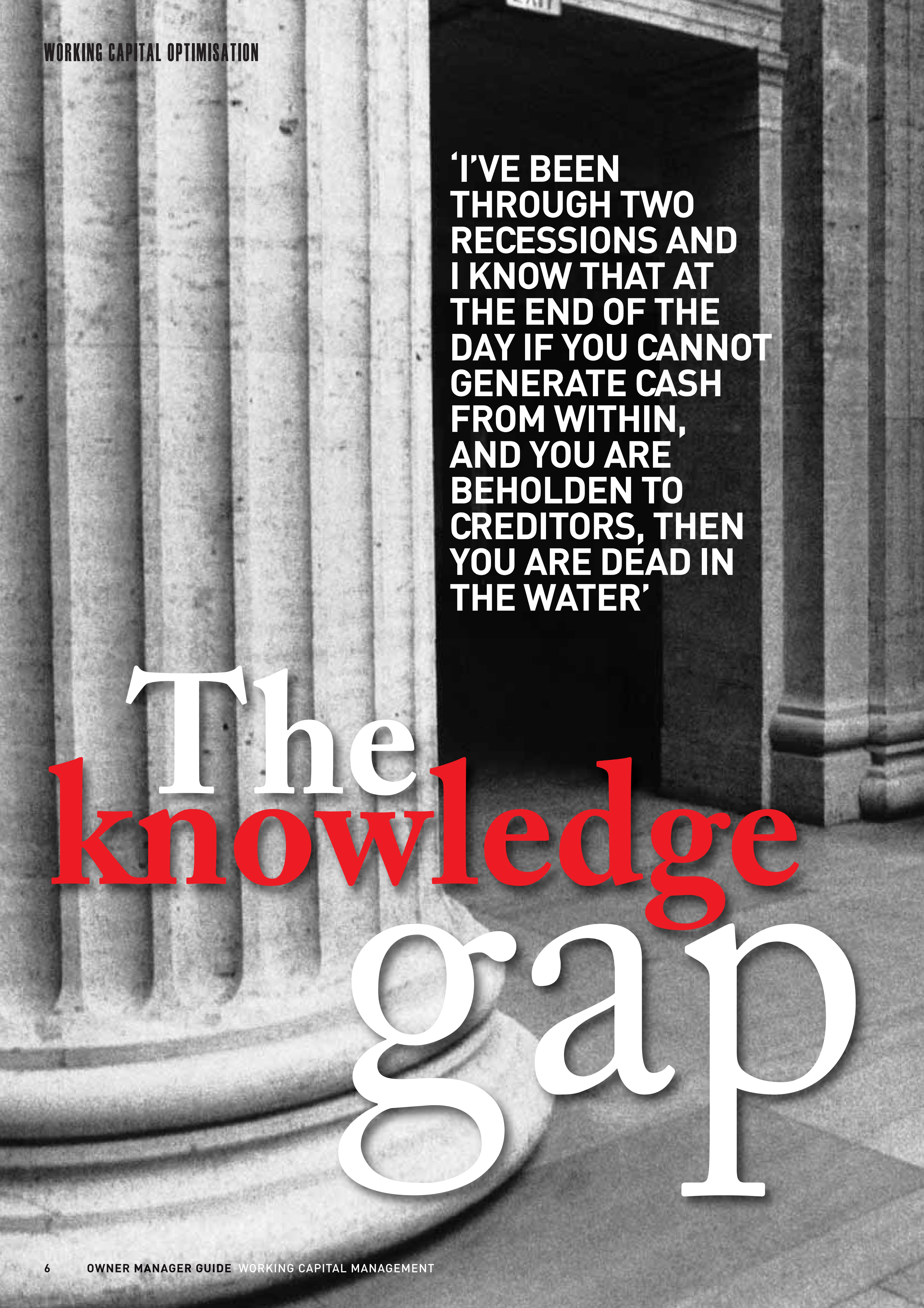
46

LEGAL NOTICE

The information provided in this Guide does not constitute financial, tax, legal, investment or any other advice, and should not be taken as such. *Owner Manager* urges you to obtain professional advice when dealing with important financial issues.

While every effort has been made to ensure the accuracy of the content herein, Business and Leadership Ltd cannot be responsible for errors or omissions within this Guide.

IN ASSOCIATION WITH AIB



‘I’VE BEEN THROUGH TWO RECESSIONS AND I KNOW THAT AT THE END OF THE DAY IF YOU CANNOT GENERATE CASH FROM WITHIN, AND YOU ARE BEHOLDEN TO CREDITORS, THEN YOU ARE DEAD IN THE WATER’

The knowledge gap

IT IS CRUCIAL FOR US ALL THAT BUSINESSES GET A BETTER HANDLE

ON THE WHOLE WORKING CAPITAL CYCLE, AND THE DRIVERS BEHIND IT, BELIEVES WORKING CAPITAL EXPERT JOHN MARDLE. HE TELLS ANN O'DEA IT SHOULD NEVER SIMPLY BE LEFT TO THE FINANCIAL DIRECTOR

‘BUSINESSES DON’T FOLD BECAUSE THEY DON’T HAVE PROFITS.

THEY FOLD BECAUSE THEY DON’T HAVE CASH. YOU’D BE AMAZED HOW MANY BUSINESSES I MEET THINK PROFIT AND CASH ARE THE SAME THING’

Working capital management is a key issue

for any business’s survival and sustainability, says John Mardle, an expert in working capital optimisation and managing director at Develin & Partners in the UK. Yet most businesses don’t properly understand what’s involved. He believes that much more focus needs to be put on educating companies on the importance of strong management of working capital, and that the focus in the good times has been far too much on profit and debt.

“Companies have been failed by the educational establishment. The business schools and the universities have tended to focus on leveraging the debt rather than on the internal working capital of the organisation,” says Mardle.

“To some extent, that has been good. But we’ve had it good for 10 years and we’re now looking at managers and directors who have known nothing but good times. I’ve been through two recessions and I know that at the end of the day if you cannot generate cash from within, and you are beholden to creditors, then you are dead in the water.

“Unfortunately, the educational establishments have not really grabbed that and have tended to concentrate on private equity, the banks and venture capital to generate cash for companies that in many cases are not viable going concerns.

“I don’t blame directors and managers. In many cases they just have not been made aware of the importance of their own working capital management,” he says. Indeed, Mardle is critical too of the media in this regard, and their narrow focus on the availability of credit from banks.

“The media campaign makes me cringe at times – even some of the statements Mr Brown is coming out with over here these days like, ‘We’re doing everything we possibly can’. The businesses are certainly doing the best they can, but in many cases they have such limited tools, and such limited understanding of how much headroom they have to be able to manage their money supply.”

So, does he believe the majority of companies properly understand how to manage working capital? “Rarely. The reason being, many don’t even understand the terms and conditions of their own sales and those of their suppliers.”

Mardle gives regular seminars on the subject to managers and directors and he says the same stories occur. “We find that they can be paying suppliers in 35 days and getting cash in from a customer in 47. Now, there’s a discrepancy there of 12 days, and that’s just a good average.

“So what we often find is that they are paying suppliers too promptly, which seems a bit odd. Don’t get me wrong, I’m not saying ‘keep the cheque in the drawer’. In these tough times you’ve got to keep your suppliers afloat to satisfy your own customers. But we find businesses paying their suppliers, not looking at their own terms and conditions, and realising the customer isn’t going to pay them until long after the event.”

CASE BY CASE

According to Mardle, the problem is companies send out their invoices with standard terms and conditions of payment across the company. “What we advise is that you look at your terms and conditions on a customer/supplier basis. In some cases, the large company down the road is likely to be able to pay you within 14 days, whereas the small supplier, the one-man band who is a critical part of your set up, in some cases may need payment earlier. It has to be almost looked at on a case-by-case basis.”

Not that Mardle claims this is easy. “It is difficult because you may have a large number of suppliers and customers, and you could be generating a large amount of work there. But, to be frank, the owner manager today has got to be looking at that sort of level of detail in order to survive.”

THE FINANCIAL SUPPLY CHAIN

In practice, Mardle finds that many of the businesses he sees are not establishing a robust, rigorous and regular (he calls it the three ‘R’s’) reporting of cash flow. “They don’t do the daily bank balances, they don’t do the weekly forecasts, and in most cases the financial supply chain is not properly understood. We call it the ‘cradle to covenant’. Basically, when an order is won, you’ve then got to understand when your loans and covenants are due.”

He’s a believer in the old maxim, ‘Profit is vanity, cash is sanity’, he says. “Indeed, you see classic cases where people are still supplying, still making profits, but they just don’t understand the cash. Businesses don’t fold because they don’t have profits. They fold because they don’t have cash. You’d be amazed how many businesses we meet think profit and cash are the same thing.”

NOT JUST AN ISSUE FOR THE FINANCE DEPARTMENT

Though an accountant by trade, the accountancy professions does not escape Mardle’s ire. “Often there are too many accounting loopholes put in place to ensure revenue, with no real idea where the cash is coming from.”

It is a mistake, says Mardle, to believe that working capital management is an issue for the finance department. He says it must be a company-wide concern, and, indeed, one for everyone in the chain. “We need to understand how we all impact on each other and interact with each other. In any working capital policy, people from sales through to purchasing, through to distribution,

©Paul Brown/Rex Features

Key creditors must also be open and transparent with you. Primark's reputation took a hit when it was discovered its suppliers were using child labour without its knowledge

all have to be in the loop. They need to really understand how they all work together to make it work. And in many cases there are customers out there, suppliers, that you have to bring together in the same room and actually talk through the issues."

Mardle sometimes finds himself involved in mediation between customers and suppliers, in cases of, for example, bad debt. "You get a supplier and customer in the same room, and all of a sudden they see each other's approaches and they say, 'Oh, if we'd understood that, we'd have done this'. What we end up doing is keeping them out of the courts and actually working together."

UNDERSTANDING WORKING CAPITAL DRIVERS

He says a good understanding of days sales outstanding (DSOs), days payable outstanding (DPOs) and inventory turns is very important. "This is the basic stuff. But the critical piece is understanding the working capital drivers, or what makes DPOs and DSOs go up or down. Again, in many cases, businesses just don't understand the drivers. What drives a DSO up to 75 when it should be 45? What's the driver behind DPO going down when it should be going up?

"We'll often dig around; we might go back through invoices, CRM systems, customer complaints, and in many cases we find it was a sales manager in Manchester who gave a freebie away or gave an extra 10 days' credit. It's totally out of the norm and it has skewed the DSOs."

"The other critical thing is that you normally only get terms such as DSO and DPO on the back of a balance sheet. That is rubbish. It doesn't work in today's climate, where it is all about understanding what the drivers behind these terms are about," continues Mardle "They can be anything from a supply truck being turned around at the port because of bad weather. All of a sudden you can't supply, and if you can't supply, then you have a problem raising invoices to get the goods paid for.

"And, more importantly, your important customer doesn't get the goods, and that customer then has a problem with their customer. It has a huge knock-on effect on the whole financial chain."

He says there are countless other drivers that go unnoticed by management. "You'd be amazed what we find – invoices dated 2009 going out in 2008, and getting returned because of the wrong date on them. What happened? They did the VAT change and for some reason some of the programmes automatically changed dates as well and didn't pick up on it."

He says the VAT-rate change didn't help businesses in the UK. "So many invoices got returned because they were miscalculated, and the timing was terrible because it was end of year. Ironically, the government gets crucified too in this case, because it doesn't get the right VAT amount in."

He is astonished that the Irish Government would have put businesses through all that pain of changeover for a rise of 0.5pc when I tell him. "Surely not? Fot half a per cent? Oh my goodness. Well, it's a programmers dream, because they are the ones who will make a fortune out of this."

'NINETY PER CENT OF WORKING CAPITAL PROBLEMS CAN BE IDENTIFIED MONTHS BEFORE ANY STATISTICS ARE GENERATED, BECAUSE IT'S ALL ABOUT THE RELATIONSHIPS. IT IS BLINDINGLY SIMPLE, BUT YOU HAVE TO KEEP RE-ENFORCING THAT MESSAGE'

THE WORKING CAPITAL PIPELINE

As we have moved from a manufacturing economy to a service economy in countries like Ireland and the UK, there's another factor that businesses need to focus on, says Mardle, and that is work in progress. This, he says, needs to be separated out as a separate statistic.

"Focusing on one statistic is a recipe for disaster. One needs to have all four areas fully understood. Yes, DSO, DPO and inventory turns – but also work in progress. One of the big things that happens in service companies is that so many things get put into work in progress – cost, timesheet, labour, material. And guess what? You can't invoice it, because the customer hasn't agreed it. Well, you had better get out there and get them to agree it. That was fine in the old days, but in today's climate you risk ending up with a massive amount of work done that is unbillable."

PITFALLS TO AVOID IN A DOWNTURN

As regards what owner managers need to concentrate on now that we are in the midst of a recession, Mardle reiterates the importance of understanding your own drivers and not leaving it in the lap of the financial director.

"Don't simply leave it to the accountants to manage the process. They are there to generate the numbers. You and your managers are best placed to understand the actual working capital drivers, and the relationships with suppliers and customers. The managers are the ones who can give you the answers and make things happen. After all, they are at the grass roots.

"When we do our seminars we often speak to managers in charge of millions in costs, and they don't have a clue of how the cash flow works. You need to get down to that level of detail. These are the people who are face to face with the customers, with the suppliers.

"Get a method in place for communicating with your managers so that they are telling you this supplier is in difficulty, or that customer has a problem. Because if you have that traceability, that record, then the managers can say they have done their job. They have forewarned management that there's an issue coming down the pipeline.

"Ninety per cent of working capital problems can be identified months before any statistics are generated, because it's all about the relationships. It is blindingly simple, but you have to keep re-enforcing that message."

John Mardle

TIPS FOR DEALING WITH BANKS AND CREDITORS

Relationships are also vital when dealing with banks and key creditors, says Mardle. "Key creditors have got to be honest with you. Are they suffering as well? Are they unable to invest in machinery you need them to have? Are they cutting back on facilities? Are they cutting back on health and safety?

"There's the whole area of social responsibility here too. You need only look at Primark here in the UK (the retailer was reported as having suppliers that used cheap child labour last year). If you have suppliers it doesn't matter if they're in Timbuktu or Manchester or Dublin, if they're not doing it properly, there are people who won't want to do business with you."

Whether dealing with the bank manager or an investor in your business, Mardle recommends an up-front relationship and early disclosure of any problems coming down the line. "Honesty is critical, but timing is really critical. It's no use going to a bank manager on 30 March and saying this month's figures are going to be terrible. You should be saying that in January."

However, he cautions that a sensible approach needs to be taken with this. "Think about what you say to them. You don't want to frighten them either. It's all about wording and timing. You've got to have a bit of nous about you, so you're giving the true picture but not colouring it in any way."

It is in a business's own interest to have this kind of honest rapport, he says. "Whether it's the bank, the market, or the small guy down the road that's just invested in you, if you've got that rapport with the person, whereby you've given them honest, up-front early disclosure, then they can make a decision.

"The good thing is you can then actually factor that into your plans, and have two or three months to play around with. If you do it on 30 March and you want an answer the next day, you're dead in the water."

John Mardle is the speaker at an ICAI seminar in Dublin on 8 June on Driving Cash Flow and Ensuring Efficiency through Working Capital Optimisation.

TOP 10 TIPS TO REDUCING WORKING CAPITAL

The working capital pitfalls – and why

- **Believing that working capital management problems can be fixed solely by the finance department.** Since the levers that most directly impact working capital are operational in nature, working capital optimisation programmes must extend beyond the finance department and engage the company's entire managerial team.

- **Engaging in artificial efforts, such as delaying payments to suppliers or indiscriminately stepping up collection activities, to boost quarter- or year-end performance metrics.** In business, as in physics, every action is met with an opposite reaction. Delaying payments to vendors may reduce working capital over the short term, but that improvement is likely to disappear over time as vendors adjust their pricing accordingly. A haphazard, ill-managed collection push is unlikely to achieve any long-term results, and may alienate customers.

- **Beating the 'cash is king' drum internally and externally, but not linking executive compensation to cash flow and comprehensive working capital metrics.** For most managers, compensation drives behaviour better than a mantra.

- **Waiting for a business recovery before trying to improve working capital processes.** Just as growth should not be used as an excuse to ignore working capital, neither should a crisis. Doing so can significantly inhibit a company's ability to grow and meet demand once business rebounds.

- **Believing that enterprise resource planning (ERP) systems and technologies are the silver bullet for working capital improvement.** Many large investments in ERP systems generally do not, by themselves, bring working capital improvements. Over the near-term, they can cause deterioration in working capital performance, as key managers and employees are distracted from their daily routines and forced to fine-tune the new system.

- **Failing to connect suppliers and customers across the enterprise to gain significant, mutually rewarding benefit.** A company can improve working capital performance while treating itself, customers and suppliers as three distinct entities, but maximum benefits are achieved when business processes mirror the inextricable ties between the three entities.

- **Delaying payments to suppliers as a tactic to increase cash flow before fully exploring how your company can negotiate better terms or gain discounts for prompt payments.** Once you become a late payer, your bargaining position is severely compromised. Instead, use your leverage as a prompt-paying customer to your advantage. You'll not only save more money, but retain the good will of your suppliers.

- **Reducing inventories without improving the overall supply-chain process.** There is a direct correlation between inventory management methods and the level of customer service the company can provide. If you simply reduce inventory levels without addressing core processes customer service will suffer.

- **Letting debt become overdue before identifying disputes and contacting customers to resolve them.** A better practice is to contact your most valuable customers before payments are due to resolve any potential disputes. For payments that do become delinquent develop a proactive, systems-based, event-driven procedure to resolve disputes. Assign collection responsibilities to specific individuals and escalate that responsibility to increasingly senior employees as invoices become further past due.

- **Having a business model geared around making-to-stock when you have the capability of making-to-order or making-to-demand.** 'If you build it (they) will come' is a movie cliché ('Field of Dreams'), not a sound business practice for most companies. Gearing your business model to customer demand is simply more efficient and logical than gearing it to sales projections. Companies that must rely on sales projections should develop forecasting techniques that incorporate intelligence from all relevant segments, including not just sales but manufacturing, distribution and marketing.

Source: John Mardle, Develin & Partners


Income
expenses
Statement
balance
Sheet
receivable
expenses
Total

CASH-FLOW FORECASTING

IMPLEMENTING A CASH-FLOW PROJECTION SYSTEM WILL HELP IMPROVE WORKING CAPITAL MANAGEMENT AND LEAD TO MORE EFFECTIVE COMMUNICATION WITH YOUR CREDITORS, WRITES CIARÁN O'BRIEN

In today's world of financial stress and recession,

good cash management is clearly of vital importance to all businesses. Cash-flow projection is one of the most powerful tools in managing money as it enables you to look at the cash flowing in and out of the business, assess future cash and funding requirements, and put appropriate facilities in place to meet requirements down the line.

PREPARATION OF CASH-FLOW PROJECTIONS

Preparing cash-flow projections is similar to preparing budgets and should be part of the business budgetary process. Using the annual operating budget as a starting point, it involves predicting the timing of cash collection and payments for each of the items included in the budget. All non-cash items, such as depreciation and amortisation, should be excluded from these projections.

They should, however, include an estimate of the collection of receivables and payables from the end of the preceding period, as these will impact future cash flows. And it's important to note that all amounts included in the projections should, where applicable, include value added tax (VAT) as this will also affect cash flow.

The projections should be prepared so that they analyse cash flows by week or by month and should be updated every week or month thereafter to reflect the actual situation. At a minimum, projections should be prepared for the next year and rolled forward every month so that you can look forward at least twelve months to assess when cash-flow difficulties may arise.

If you do not have an annual budget, preparing a cash-flow projection is likely to be more difficult and take longer. You should start by looking at your current position to gauge when current payables are due to be paid and when amounts owed to you are likely to be collected.

Regardless of whether or not you have prepared a budget, it is likely that most fixed costs such as payroll and rent will be consistent month on month. For variable costs, such as materials, light and heat, telephone and taxes, you should estimate the likely cost and timing of payment based on historical trends and any other relevant current information (eg predicted production cycles) that is available. Items of capital expenditure such as purchase of assets or payments related to acquisitions will also need to be included in cash-flow projections.

Be sure to document all assumptions as this information will be important to banks or other potential users of the forecast. You should also challenge your assumptions to ensure that they are reasonable (ie not overly optimistic) and stand up to scrutiny.

In these tougher times, businesses should also use this opportunity to look at what they are spending their money on to identify potential areas for cash savings, such as areas of discretionary spending like travel, subscriptions and optional benefits or bonuses.

RUNNING SCENARIOS

Additional projections should also be prepared to reflect different scenarios so that you can see what the position might be if things don't go as planned (eg loss of an important contract, increase in interest rates, unfavourable movement in foreign exchange rates, higher than expected bad debts, etc). This analysis may prompt you to examine your options even though you do not expect a problem based on current information.

CURRENT CASH BALANCES

It is also important that all current cash balances (including amounts in the business bank accounts) are included and that the projections include estimates of future cash balances, so that the business can anticipate its future cash and funding requirements based on the predicted levels of cash available. Future cash balances can be estimated by adding the projected monthly net flows from the cash-flow projection to the current cash balance. The model should be set up to calculate the projected cash balance at the end of each week or month, and identify peak cash requirements.

Ciarán O'Brien

'IF YOU DO NOT HAVE AN ANNUAL BUDGET, PREPARING A CASH-FLOW PROJECTION IS LIKELY TO BE MORE DIFFICULT AND TAKE LONGER'

USE OF SPREADSHEETS

Spreadsheets are used by many businesses to prepare cash-flow projections, as they allow for quick and easy updating of figures to reflect actual numbers or changes in assumptions. The projections should be prepared in a format that is suitable for presentation to banks and other interested parties. This can be done by ensuring that all receipts and payments are analysed into appropriate headings based on the nature of the income or expense and that the report has appropriate totals and sub-totals, so it's easy to see the opening cash balance, total inflow, total outflow, net flow and the closing cash balance for each period.

Spreadsheets can also be used to look at different scenarios. This can be done by preparing separate sheets to reflect various scenarios. It's possible to link each of the scenarios to the original projection so that they can be automatically updated to take account of changes to the projection.

Furthermore, assumptions can be linked into the numbers in the projection to enable automatic updating of numbers to reflect changes to these assumptions. This will enable management to quickly assess the impact of a change in an assumption to future cash flow.

MANAGING SURPLUSES AND DEFICITS

Once the cash-flow projections have been completed, they should be examined carefully to identify when cash-flow surpluses and deficits are likely to occur.

MANAGING A CASH-FLOW DEFICIT

A cash-flow deficit occurs when the cash available is insufficient to pay expenses as they are due. There are a number of options that should be explored in the event of a cash-flow deficit. These are explained in more detail on pg 42, but include the following:

- Bank overdraft facility – you may be able to obtain a temporary overdraft facility to enable the business to meet its obligations for a short period of time
- Short-term loans – typically short-term loans attract more favourable rates of interest than long- or medium-term loans
- Accelerate collection of amounts due from debtors
- Reduce or defer expenses – examine your projections to see if any costs can be cut or deferred
- Agree a delay in payment to creditors/lenders
- Fundraising activities – more suited to long-term cash-flow deficit
- Convert liquid assets to cash (eg sell investments) – more suited to long-term cash deficit.

Timely preparation of robust cash-flow projections gives you time to examine the available options and to select the one that most suits your business. It also enables you to go to your bank or other suppliers well in advance of a cash-flow shortage to discuss your options. The projections can also be used by the banks or others to assess your request and will also demonstrate that your business has good financial-management practices, which will support the case for your application.

Once you identify a future problem, you should meet with your bank as early as possible to explain your dilemma and to agree a solution. It is likely to help your case if you can present them with a copy of your detailed projections and explain your assumptions to them.

CASH-FLOW SURPLUS

If, on the other hand, you expect your cash receipts to exceed your payments, leaving you with some excess cash, you will have a number of other options available, such as:

- Using the idle cash to pay down any outstanding loans
- Investing in low-risk short-term investments that yield higher rates of return than your current arrangements
- Purchasing supplies in larger quantities to avail of volume discounts.

While it may sometimes be useful to get advice and help from outside professionals in the area, timely preparation of good cash-flow projections should enable you as a business to spot problems early, giving you time to formulate a plan to address them.

Given the challenging times that companies are now facing, it is imperative for any business to start the process of preparing projections and developing solutions to anticipated cash-flow difficulties as soon as possible.

Ciarán O'Brien is a director in Deloitte's Audit Services Department. He also advises clients on issues relating to working-capital management and cost optimisation.

MANAGING DEBTORS EFFECTIVELY IS CENTRAL TO ENSURING GOOD CASH FLOW AND, ULTIMATELY, THE SUCCESS OF ANY BUSINESS, WRITES ALAN MORRIS

TILL DEBT DO US PART

‘A GOOD PROCESS WILL MEAN LESS MANAGEMENT TIME SPENT ON ADMINISTRATION AND PROCESSING ISSUES, THUS FREEING UP SENIOR MANAGEMENT TO FOCUS ON KEY STRATEGIC ISSUES’

Debtor management is at the heart

of all businesses: making a sale is all very well, but collecting the cash is ultimately what matters for the success of any company.

An efficient debtor-management process results in improved operating efficiencies, effective billing procedures and quick dispute resolution. A good process will also mean that less management time needs to be spent on administration and processing issues, thus freeing up senior management to focus on key strategic issues and on growing the business.

The starting point for effective credit control is to ensure that a credit policy, including the establishment of normal terms of trade, is set and adhered to, and only deviated from in the case of specific circumstances. The policy should be written down and circulated to all sales and finance staff. The process for authorising exceptions to the policy should be clearly set out and understood by all involved in the process.

Effective debtor management addresses the whole of the order-to-receipt cycle of the business, from customer acquisition to order and fulfilment, invoicing, collection and dispute management. Each of the steps in the process is examined below, along with some ideas on ways to reduce investment in debtors.

CUSTOMER ACQUISITION AND RETENTION

The time spent on chasing unpaid debts can be significant and disproportionate to the individual value of a debt. Putting in the effort up front to properly screen and evaluate the creditworthiness of new customers is essential if bad debts are to be kept to a minimum. While risk taking is an essential part of business, each risk should be assessed before deciding whether to accept it. The same principle applies in assessing new customers. Credit checks can be carried out by specialist credit-reference firms to help evaluate the risk of taking on a customer.

Contracts should be put in place for all significant customers, detailing the terms of trade and allowing for interest charges on overdue amounts to encourage prompt settlement of accounts. It is also worth considering the use of retention of title clauses for all customers, to enable recovery of goods supplied in the event of them defaulting on payment.

Alan Morris

It is not just new customers that should be vetted: existing customers may pose a greater threat if their businesses are suffering as a result of the current economic climate. Look for indicators of problems in meeting payments such as taking longer to pay, not returning phone calls and part-payments. All of these can indicate cash flow issues that could impact your business. Communicating promptly with the customer should quickly identify if there are issues and allow you to decide whether to retain the customer, to reduce credit limits or seek payment in advance for future orders.

ORDER AND FULFILMENT

The order process should be simple, quick and easy in order to maximise sales opportunities. Agreed terms and credit limits should be communicated and confirmed when taking orders. And the customer's account should be monitored to make sure credit limits haven't been breached before any new orders are accepted. If a customer has breached, or is close to, their credit limit, payment should be sought to bring the account back within terms.

Proper fulfilment of customer orders is a critical part of the process. The faster goods or services can be supplied, the quicker an invoice can be raised and cash collected. Failure to deliver goods to the correct specification or on time will lead to disputes and delays in settlement of debts, increasing the cash conversion period (the time from sale to collection) and distracting management's time from more important tasks. Getting it right first time will help to facilitate timely payment by the customer.

INVOICING

A number of simple steps can be taken to ensure the invoicing process is managed smoothly, including:

- Making the invoice clear and simple. Remove any unnecessary details from the invoice so the accounts staff who receive it can process it quickly
- Automating the invoicing process. Wherever possible, invoices should be automated and linked to the fulfilment process. Manual preparation of invoices is time-consuming and prone to errors
- Dispatching invoices with goods when delivered. This will speed up the booking of invoices into customers' systems. If this cannot be done, invoice within 24 hours of supply
- Ensuring the accuracy of price, quantity and items supplied. Getting it right first time will reduce the cash conversion cycle. Where problems are identified, deal with them immediately by issuing credit notes and new invoices. Do not leave the issues to linger
- Ensuring terms are clearly stated on invoices, and that the

'ALL BUSINESSES WILL AT SOME TIME FIND THEMSELVES FACED WITH CUSTOMERS WHO REFUSE TO SETTLE AMOUNTS DUE'

use of retention of title clauses is highlighted on all invoices
- Ensuring addressee details are correct
- Following up promptly
- Sending statements if required.

By addressing the above, the collection process will be made simpler and faster, with fewer disputes.

COLLECTION

The collection process is generally an area where many businesses can make simple improvements that will quickly lead to cash benefits.

The key to collecting amounts due and overdue efficiently is to be organised and have all the relevant information to hand. The single most important management tool is the aged debtors' analysis, which should list all invoices by customer and due date. This document will form the control tool when you are dealing with customers in collecting debts.

Good communication with customers is essential to maximising collections. Develop this to ensure you will be at the top of their payment list when you call. Ensure there is clarity of roles and responsibilities within your business, including customer-relationship management. This will ensure the right people at the customer side are contacted by the most appropriate people in your company to resolve any issues. For example, your finance or credit control team may not be the right people to resolve an issue: it may require the sales team, the technical team or the owner.

Understanding your customer's payment process can help simplify the collection process. If payment runs are done weekly, make sure you contact the customer before the run is due to ensure your payment is included. Consider changing collection methods, for example to electronic funds transfer or direct debit. This can deliver benefits both to the customer (in simplifying the payment process) and to your business (in having direct payment to the bank as well as certainty of payment).

The following simple steps should be considered when collecting due and overdue amounts:
- Follow up with phone calls (this is often the most effective method of collecting debts)
- Keep detailed logs of all key discussions with debtors
- Compile required documents that substantiate the outstanding amount
- Issue a formal letter requesting payment if credit terms are breached
- Make a personal visit to the customer to discuss the account
- Consider a potential retention of title claim to recover your goods in lieu of payment
- If settlement is suggested, discuss terms and consider the customer's ability to pay
- If no progress is made, consider the legal position and the merits of issuing legal proceedings.

A number of other specific actions will help drive cash into the business, including:
- Focusing on collecting overdue debts that are unpaid because they are not being chased, there is an outstanding credit note, the account was not put on stop, or sales are overriding credit control
- Considering offering discounts for early settlement, especially to large debtors
- Considering netting against amounts owed to the customer
- Linking sales commission to collection
- Levying interest.

Look out for changes in payment patterns that could indicate financial difficulty and address them with the customer immediately. Where customers are having problems, empathise and offer solutions. Consider taking part settlement coupled with an agreed plan for payment of the balance, or look at renegotiating terms, including payment in advance for future supplies made.

Where the collection actions outlined above are failing to clear outstanding amounts further action may be required, such as issuing standard dunning letters and following up with legal action.

DISPUTE MANAGEMENT

All businesses will at some time find themselves faced with customers who refuse to settle amounts due. Common reasons for non-payment include work not having been completed, defective goods or services, insufficient or absent documentation, warranty issues and contra charges or set-off.

Such disputes will often be best handled by senior management, who may be able to negotiate settlement in a more objective manner than those more closely involved with the situation that has given rise to the dispute. In some situations legal remedies will be required.

Efficient and effective debtor management is fundamental to a business's success. By adopting a structured approach based on best practice, management can ensure that they maximise cash flow from sales and identify and deal with issues when they arise.

Alan Morris is head of KPMG's Cash Management team in Ireland.

Where credit

EFFECTIVE MANAGEMENT OF CREDITORS IS ONE OF THE EASIEST WAYS FOR BUSINESSES TO IMPROVE CASH FLOW, AND A REGULAR REVIEW OF POLICY AND PROCEDURES IN THIS AREA CAN HELP TO IDENTIFY FURTHER OPPORTUNITIES TO DELIVER SAVINGS, WRITES ALAN MORRIS

‘MOST DISPUTES RESULT FROM ISSUES SURROUNDING DELIVERY. IT IS ESSENTIAL TO MATCH PROOF OF DELIVERY TO INVOICES RECEIVED AND IDENTIFY DISCREPANCIES IMMEDIATELY’

is due

Management of payments is a key tool

in effective cash management. Creditor management is about maximising the period from purchasing goods and services to paying for them, thereby reducing the working capital requirement in the business. This objective of maximising the credit period must be carefully managed to ensure relationships with suppliers are not damaged and stock levels are optimised.

All businesses should set a clear policy on creditor management that will underline their approach to sourcing and negotiating terms and conditions. That policy should take account of optimal stock holding levels (including the importance of holding buffer stocks to avoid stock outs) and timing of other cash flows within the business. The purchasing strategy should be aligned to business goals and priorities should be set. Is price the most important issue, or is certainty of supply or quality of product paramount? Determining the key drivers for the business will guide in your approach to managing creditors.

PRACTICAL TIPS ON NEGOTIATING BETTER TERMS

Your ability to optimise the credit period will be driven by a range of factors, including the relative importance and dependence of the business on particular suppliers and their dependence on the business as a customer. If a supplier is heavily dependent on your business you will be in a strong position to negotiate extended terms. Where goods required in the business can be sourced from a number of suppliers there may also be opportunities to negotiate favourable terms with existing or new suppliers, who will be keen to retain or win your custom.

Building strong relationships with suppliers is critical, especially given the current economic climate. A good starting point is to review the number and frequency of use of suppliers. Consider concentrating supplies to a smaller number of suppliers and developing strategic supplier relationships. Such an approach can deliver financial savings, in terms of better prices and payment terms, and greater reliability in terms of product quality and supply. However, care must be taken to ensure that over-dependence on too few suppliers does not carry too high a risk for the business.

Agreeing to pay suppliers on set dates can also assist in negotiating extended credit terms as certainty of payment will allow them to plan their payments to match.

Alan Morris

Stock holding considerations will be important in negotiating with suppliers, in terms of the holding costs to both your business and the supplier. Better terms can often be agreed by negotiating purchasing agreements where commitments to take set (or minimum) quantities at set dates are made, thereby enabling the supplier to better plan production.

Many factors influence negotiations with suppliers. Generally, your negotiating position will be stronger if you are a key customer and if you have complied with terms on previous business undertaken with them. While there are good opportunities to negotiate better terms in the current economic climate, care should be taken when negotiating to ensure that the terms do not place the supplier under undue cash pressures, especially if alternative supply is difficult to source.

PURCHASE-TO-PAY CYCLE

Effective creditor management addresses the whole of the purchase-to-pay cycle of the business, from order placement to receipt of goods or services through to payment. Each of the steps in the process is examined below, along with some ideas on how to deliver cash benefit to the business.

ORDER

It's essential to have a formal purchasing policy and procedure in place, which should be distributed to all relevant functions within the business. The policy should be reviewed regularly and amendments made where necessary. Consider tightening up the process to ensure only business-critical purchases are made. By doing so, significant savings can be delivered without any adverse impact to the business. A key to achieving these savings is to communicate their necessity to all staff and obtain their commitment.

Further practical ways of achieving better cash flow for the business in the order process include:

- Buying on sale or return. This provides the business with the flexibility to have goods on hand while not committing funds for payment
- Changing order dates. One-off benefits to the cash cycle can be achieved by changing order dates and frequencies
- Centralising procurement. While many businesses cannot afford to commit a resource specifically to procurement, most businesses can still generate savings by reviewing their current approach to buying and streamlining the process. Simple measures such as requiring final sign off for all purchases by the finance function can help identify inefficiencies

'BUILDING STRONG RELATIONSHIPS WITH SUPPLIERS IS CRITICAL, ESPECIALLY GIVEN THE CURRENT ECONOMIC CLIMATE'

- Linking order placement to order quantity optimisation. Better prices and terms can often be negotiated by placing larger orders less frequently or at agreed schedules.

RECEIPT OF GOODS OR SERVICES

A procedure to ensure confirmation of goods and services received should be in place. This can involve issuing goods received notes or signing delivery dockets or invoices supplied at the time of delivery or thereafter. Most disputes are likely to result from issues surrounding delivery – for example, incorrect quantities or items – and it is essential therefore to match proof of delivery to invoices received and to identify discrepancies immediately.

A prompt and proactive approach to resolving disputes will help build stronger relationships with your suppliers. It will also save time for your business as the information relating to the dispute will be readily available and the circumstances surrounding the dispute will be fresh in people's minds.

Where damaged goods have been received they should be returned immediately and replacement goods or a credit note should be received.

Once confirmation of receipt of goods is given, the focus of creditor management becomes one of payment.

PAYMENT

Management of payments provides the greatest opportunities for a business to manage its cash better. While good debtor management is essential for bringing in cash, a business has greater control over its own cash and if managed properly can control payments to keep cash within pre-determined limits.

The starting point for effective cash management is to have clear visibility over liabilities and new purchase requirements, and to schedule upcoming payments to match forecast receipts and cash availability within the business. Cash-flow forecasting is a key business tool in this process and can be done on a simple spreadsheet or with more sophisticated forecasting tools.

In order to achieve visibility and control over all payments (including direct debits), managers must have a clear process for recording and tracking liabilities and payment dates. This will normally be controlled through the accounting system but additional processes, such as critical payment control schedules, may be employed.

Better management of payments can be achieved by:

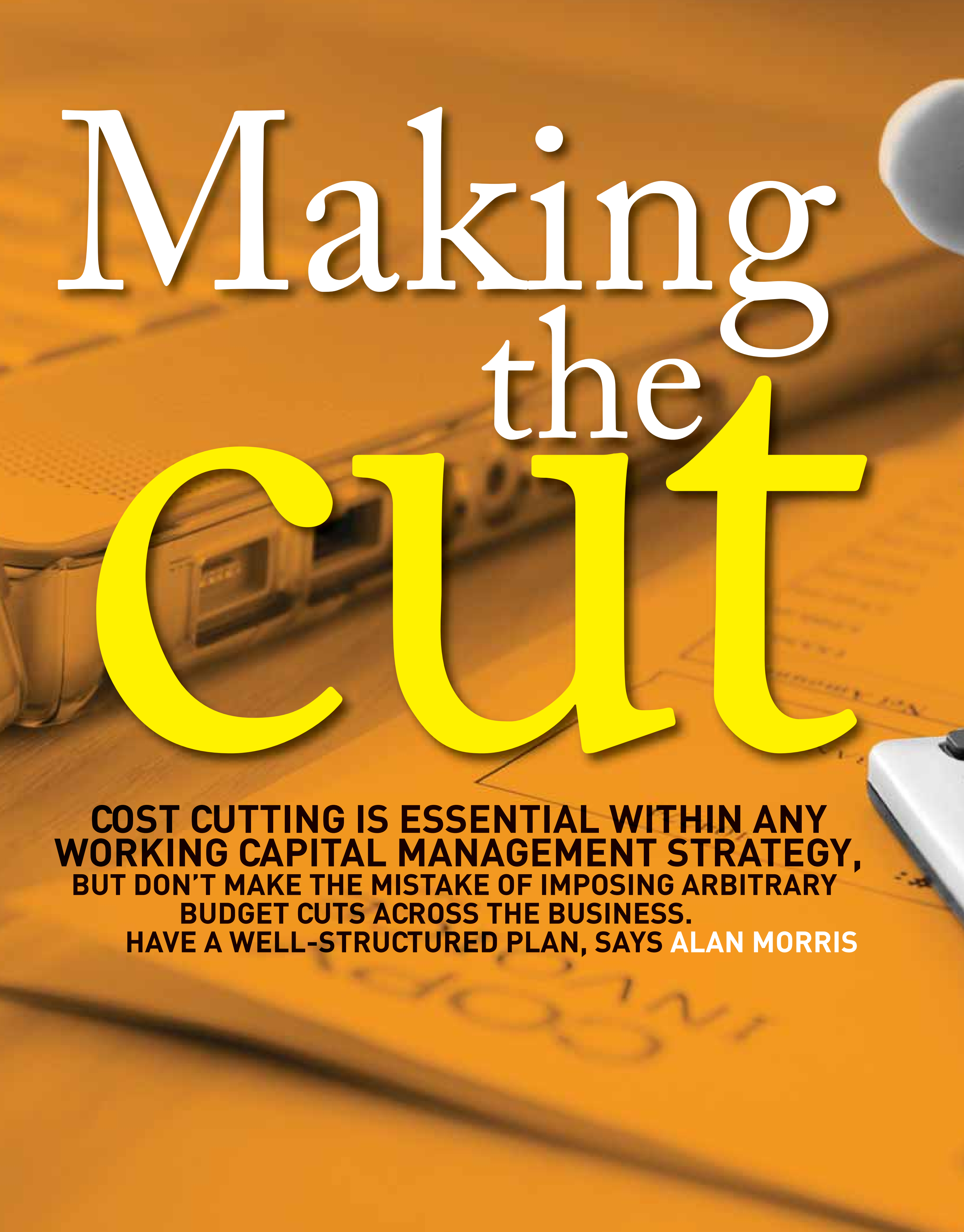
- Reviewing payment methods. While payment by automated methods such as direct debit and the UK's Bank Automated Clearing System (electronic funds transfer) provide benefits in reduced processing costs, they provide less flexibility than cheque payments in terms of the ability to hold payment for a short period
- Restricting payment authorities. To give greater control over the management of cash, previously held authorities (eg cheque-signing authority) should be reviewed and withdrawn if appropriate
- Changing payment dates. These should be matched to receipts where possible to ensure funds are in place ahead of payment out of monies. Where a mismatch currently exists, talk to suppliers and agree a change in payment dates
- Reduced number of payment runs. A significant benefit can be delivered by reducing the number of payment runs within the month. Letting your suppliers know that you intend to do this is essential to ensure they are fully aware of your plans and can plan their cash flows accordingly
- Reviewing discounts available and only using them where it makes sense to do so. While they often seem attractive, the cost of making payment early may be greater than the discount received. It is essential to calculate the cost of capital to the business and compare that to the discount offered. If discounts are not taken, ensure the maximum credit period available is taken
- Considering netting of amounts due to suppliers against amounts receivable from the supplier
- Proactively claiming rebates
- Reconciling statements to invoices and only paying for confirmed deliveries. As noted earlier, disputes should be identified and followed up on immediately to ensure prompt resolution.

These points demonstrate a number of ways to better manage your creditors to deliver significant cash benefits to the business. Payment procedures should be reviewed regularly to identify further opportunities for savings given changing circumstances.

Many businesses find that they have difficulties in making payments to their suppliers at some time or other. Irrespective of the cause of such problems, it is essential to open discussions with suppliers as soon as possible to advise them of the issues and negotiate a payment plan. Open and honest dialogue with suppliers will build trust and enable them to provide support during difficult times.

Effective management of creditors is one of the easiest ways for a business to improve cash flow. And regular review of policies and procedures can help to identify opportunities to deliver savings as business conditions change. Opportunities to negotiate better terms from suppliers exist in the current climate and should be seized upon.

Alan Morris is head of KPMG's Cash Management team in Ireland.



Making the cut

COST CUTTING IS ESSENTIAL WITHIN ANY WORKING CAPITAL MANAGEMENT STRATEGY, BUT DON'T MAKE THE MISTAKE OF IMPOSING ARBITRARY BUDGET CUTS ACROSS THE BUSINESS. HAVE A WELL-STRUCTURED PLAN, SAYS ALAN MORRIS

When looking at cost cutting it is important

to take a structured approach. Too often, businesses tackle costs by measures such as arbitrary budget cuts, salary freezes and bans on recruitment. While this approach can, of course, deliver savings, it is likely to be unsustainable and could harm not only morale, but the business as a whole.

Successful cost-reduction programmes are always sponsored by and driven from the top. To achieve cost optimisation requires a relentless, ongoing focus and determination from the owner manager. Given the size and scale of the challenge, organisations cannot afford to have any confusion about roles and responsibilities.

While led from the top, cost-cutting initiatives must be properly communicated throughout the organisation. Focus on cash and develop a culture where the whole team thinks before incurring costs of any kind. This is no mean challenge, but if met can result in a sustained reduction in the cost base and an attitude by all to continually be on the look-out for further cost-saving opportunities.

THE STARTING POINT

The starting point for delivery of any sustainable cost reduction is to gain a clear understanding and visibility of all costs within the business and the drivers of those costs. This will include scrutiny not only of the absolute level of costs, but also of key metrics used within the business. Measurement of key performance indicators such as productivity, cost per unit and product-profitability analysis can highlight high cost or poorly performing parts of the business, which should be tackled immediately.

It is generally quicker to cut variable costs, such as salaries and wages, advertising, travel and other overheads, and these are often addressed first. Achieving reduction in fixed costs such as equipment and rent costs is generally more difficult, and it will usually take longer for the benefits to be seen. Exiting a lease, for example, may require up-front payments, with the benefits coming through over a longer period.

The most effective way to cut costs is to review each and every cost within the business and ask yourself whether or not it is necessary, and what value it adds to the business. If a cost item is necessary, ask yourself if the cost can be reduced rather than cut. An example might be reducing purchase quantities, or finding a cheaper alternative supplier. Review all purchasing procedures within the business as well as authority limits, but ensure the latter are adequate for efficient operations.

PRACTICAL WAYS TO REDUCE COSTS

Product-profitability analysis

Many businesses continue to produce goods or services that destroy value in the business. Product-profitability analysis should be used to identify which products or services are most cost-effective and which contribute the most to central overheads. Those that destroy value should be cut unless strategic reasons exist to retain them (for example, as loss-leaders). The savings achieved can then be invested in the most profitable products and services.

Salary and wages

Labour will be the largest cost for most businesses, and serious focus should therefore be given to reducing these costs. Productivity analysis should be monitored and actions taken to improve areas with low productivity. Consider reorganising shift patterns, restructuring teams, and reviewing production processes and flows. Simple changes to floor layout in manufacturing plants, for example, can lead to significant savings and a better work environment for employees.

Poorly performing employees should be performance-managed out of the business. Proper processes and procedures must be followed and it may take some time to deliver the cash savings, but other benefits can often result sooner, for example, from increased motivation and productivity from fellow workers.

Other areas where labour cost savings can be delivered include:

- Restructuring of benefits, for example, by offering flexible pay and benefit packages
- Reducing overtime through increased productivity during normal time and implementation of more stringent processes for authorisation of overtime to be worked
- Reducing training for areas with high staff turnover.

Stocks

Review the levels of buffer stocks held throughout the business. Cultures of ordering extra stock as a ‘just-in-case’ need to be changed. This applies not only to manufacturing but equally to other areas of the business, where, for example, excess stationery and supplies are often held.

Many businesses hold significant obsolete stocks that should be realised both to generate cash but also to reduce stock-holding or warehousing costs.

'QUESTION WHETHER PURCHASES ARE ESSENTIAL AND WHETHER GOODS OR SERVICES CAN BE OBTAINED FROM ALTERNATIVE SOURCES MORE CHEAPLY. DON'T JUST ACCEPT THE ANSWER GIVEN – PROBE AND CHALLENGE'

Occupancy

Occupancy (premises-related) costs will normally be one of the highest costs to the business. Review occupancy requirements when downsizing operations.

- Seek to renegotiate lease terms, including downward revision of rents and revision of payment terms
- Review facilities management (FM) costs. Consider outsourcing to a specialist FM provider if necessary.

IT

Today, IT is a critical area for business, so think long and hard before tackling cost cuts in this area. While it is possible to achieve savings, any cost-cutting plans here need to be thoroughly researched before being implemented. It is vital to ensure there will be no adverse impact on the business, as the implications of changes of IT systems can include issues with access to management information, as well as customer and supplier records. Resolution of issues resulting from a poorly thought-out plan can be time consuming and costly. Listen to your experts in this area.

Fixed assets

There are opportunities too for cost cutting in your fixed assets. You might consider deferring capital expenditure plans, and perhaps wait another year for the new car or replacement PCs. Equipment sale and leaseback is another effective way to release cash and reduce costs. When you are buying new assets, consider leasing from the beginning rather than buying. There are opportunities at the moment to look at purchasing second-hand assets if appropriate to your business requirements.

Other costs

Opportunities may exist to drive significant savings from resource utilisation too. Look closely at areas like energy, packaging, water, and transport and distribution activities.

Some other thoughts

The current economic climate presents opportunities for business tie-ups, either through acquisition or collaboration, which can deliver cost savings by eliminating duplication of roles and functions.

Outsourcing part of the business can deliver cost savings too. However, great care should be taken here to fully assess the implications of undertaking such a process change, as bringing outsourced services back in-house can be difficult and expensive.

Overall, in order to achieve sustainable cost reduction, it is vital to first understand the cost base of your business and the cost drivers. Then you can tackle each cost area by measurement, so as to ensure the targeted savings are achieved and that other opportunities for cost cutting are identified.

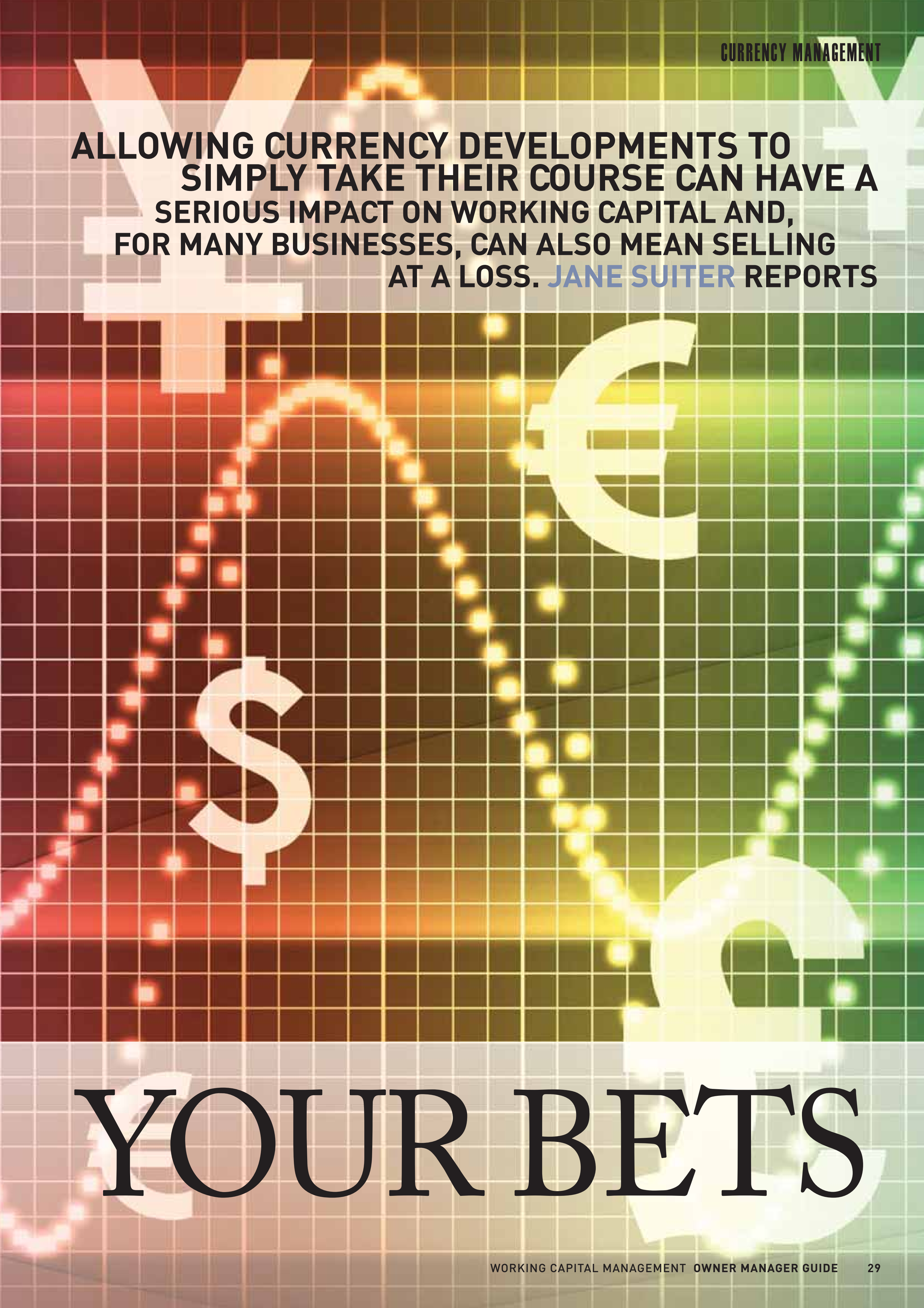
Alan Morris is head of KPMG's Cash Management team in Ireland.

SIMPLE COST-REDUCTION TECHNIQUES

Some simple techniques to deliver cost reduction across the business include:

- Close scrutiny of all purchase orders. Questioning whether purchases are essential and whether goods or services can be obtained from alternative sources more cheaply may seem simple, but experience shows that significant savings can be achieved. Don't just accept the answer given – probe and challenge
- Reviewing your procurement process. Is it centralised? Do you have too many suppliers? By consolidating down to a smaller number of more important suppliers you may be able to secure better deals both on price and service
- Reviewing and redesigning customer-service techniques to get things done right the first time. Less time spent responding to customer complaints allows greater productivity and reduced staffing levels
- Restructuring the organisation to remove surplus layers of management and to streamline it
- Freeing up excess infrastructure, through redesign of manufacturing processes or warehousing activities. Blockages or bottlenecks throughout the organisational structure can significantly increase costs and reduce throughput. A focused review of all operations of an organisation can result in significant improvements in performance, allowing businesses to focus on strategic decision-making while simultaneously reducing costs.

HEDGING



ALLOWING CURRENCY DEVELOPMENTS TO SIMPLY TAKE THEIR COURSE CAN HAVE A SERIOUS IMPACT ON WORKING CAPITAL AND, FOR MANY BUSINESSES, CAN ALSO MEAN SELLING AT A LOSS. JANE SUITER REPORTS

YOUR BETS

Any company currently doing business in the UK,

the US or anywhere else outside the euro zone would be well advised to strike up a relationship with their bank's foreign-exchange department.

Accountant Padraig Casey of Meade Casey & Co warns that simply allowing currency developments to take their course can seriously affect working capital and also mean selling at a loss for many businesses. "I believe in certainty," he says. "If you are exposed to sterling you need to know what you will be getting and when, so you can work your costs accordingly."

Thus, all companies that are buying from or selling into Northern Ireland or the UK regularly need to hedge their exposure. This may sound difficult but actually just means that you are booking the exchange rate ahead, usually by three or six months, although banks will quote you for any period you like.

Of course, you will need a good relationship with your banks to be able to do this as you are effectively promising to pay a certain price in the future. However, while loans may be thin on the ground and credit hard to come by, all banks are likely to be willing to set up a relationship with the foreign-exchange department. Larger customers may have accounts directly with their bank's treasury department.

Failure to hedge your transactions could leave your business exposed on the cost side if you have large currency movements. Without hedging, you could find you have lost money on a transaction simply because of the currency movement.

For example, if you made a big sale into the UK and sterling then plummeted 20pc while you were waiting to be paid, the money you'd receive would be worth 20pc less. Not only would you have lost money on the deal if you are, say, operating a 10pc margin, but you would also have 10pc less going back into cash flow.

Casey says that most clients are happy with some sort of certainty and will go down the hedging route, which will provide them with the actual costs they are going to incur. "After all, most businesses are not in the business of playing foreign-exchange markets – they simply do not have the information or the expertise."

Nonetheless, Casey says he does have some clients with a lot of sterling on their balance sheets, particularly given the explosion of business with Northern Ireland in recent years. "We are saying to use that sterling to pay sterling bills." Many businesses also have euro costs and would normally increase prices if they were selling into the UK and sterling was falling. However, recession in that market makes such a course of action very difficult. One solution is to try to offset some of the burden by purchasing in sterling.

Of course one size does not fit all. Some businesses will arrange to buy or sell sterling from their bank's foreign exchange department to cover a specific transaction. In other words, if you had to pay a sterling bill in 60 days' time, you would call and book a rate for 60 days hence and cost it accordingly. If you had sterling coming in in 60 days' time you could sell it forward – that way you could put it into your cash flow.

Rather than booking individual transactions ahead, some companies prefer to book all their exposure three or six months, or occasionally even a year, ahead. The problem, however, is that many are unsure how much business they will actually do in the meantime to satisfy this. Going down this route depends very much on your appetite for risk as the potential for it to go wrong is considerable.

Even Michael O'Leary got caught out twice in this way in recent years by firstly refusing to hedge the price of oil before it rose rapidly, and then hedging just as it began an even more rapid descent.

Ultimately, says Casey, the best advice is probably to go for about three months and, as and when you have sales coming through, book accordingly. "That way you are not putting yourself at risk of whatever trend the global foreign-exchange markets follow in the next few weeks. After all, there is at least idle speculation that sterling could hit €1.20, and if that were to happen almost all Irish businesses would be selling at a loss."

However, hedging is not open to all as some banks have lower limits of as much as €40,000 to deal. As a result, businesses are pursuing a range of different strategies to survive. Many are now trying to do deals with their clients where they will be paid in euro, even in the UK. With the UK also in recession, it is surprising how many will agree to it and there are bargains to be had, says Casey.

Other strategies employed by some businesses include using milestone or regular payments in order to reduce the time between payments. However, with the credit crunch being felt globally, many businesses are simply not in a position to be able to facilitate this.

At the end of the day, if you have significant currency exposure you should think about hedging. Taking action by talking to your bank and setting up an account could make a big difference to your working capital.

CASE STUDY

BROCKLEY GROUP

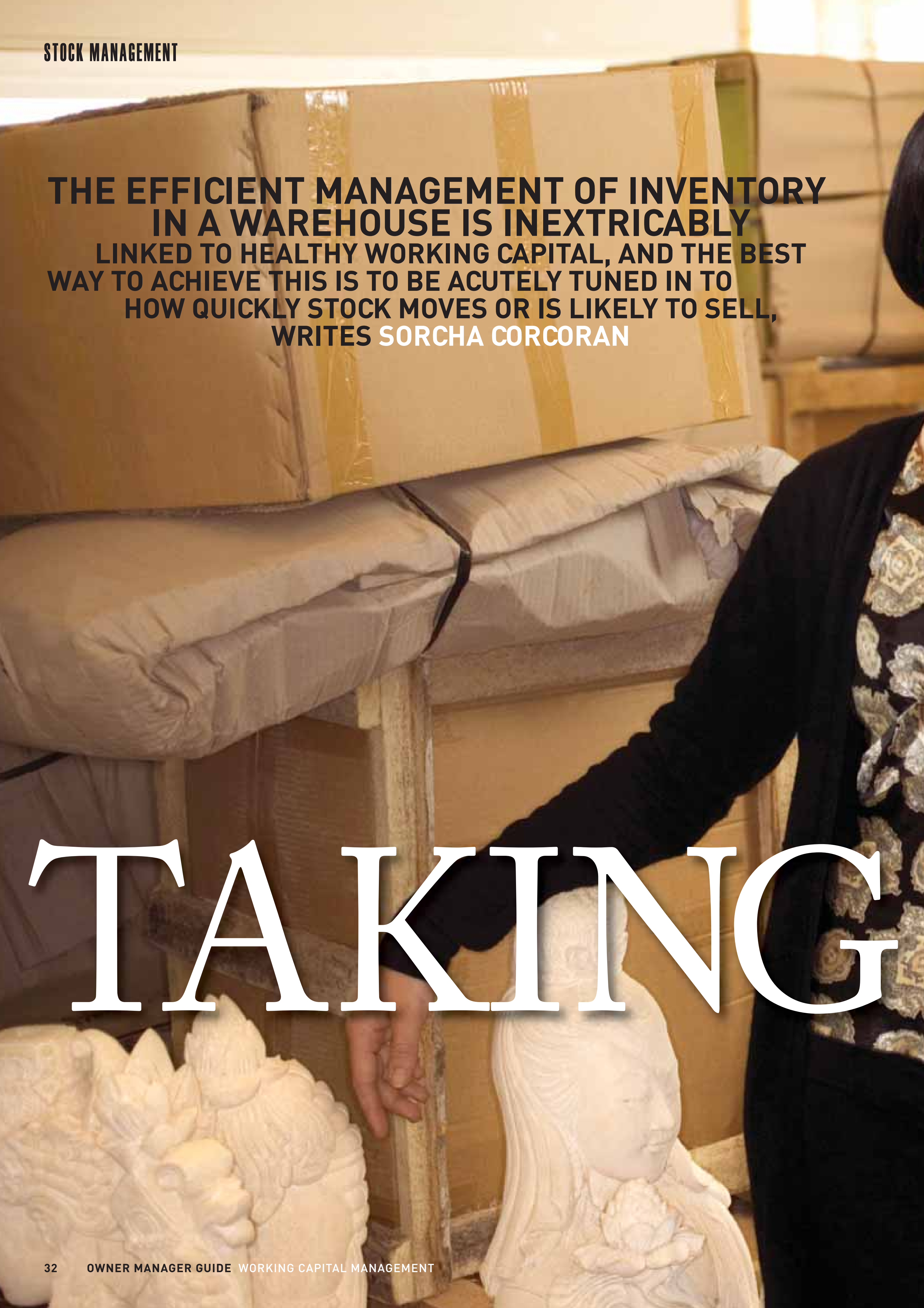
Nicky Holmes runs the Brockley Group, an importation, manufacture and distribution company that imports from the UK as well as continental Europe. The company has a fair amount of exposure to sterling, both sourcing products in the UK, for which it must pay sterling, and selling Irish manufactured products such as BlueCat AdBlue into the haulage business there and in Ireland.

"We always hedge all our exposure – after all it's not our core competency area," explains Holmes. "We believe in hedging our complete exposure so that way we can manage our costs and our cash flow. There are times when people say that a particular currency is such good value, but we just have a simple rule, and that is to hedge 100pc of our exposure. Then there are no uncertainties."

He warns that if a currency call goes wrong it can have a dramatic effect on your business and can easily wipe away all profit. "Our rule is to lock in the margins at the beginning. Far better to do that than be sitting there sweating, wondering if your currency call is going to come right. On a very odd occasion when it looks as if a currency will keep moving in a positive direction for us, I might say, 'Sure, there is no urgency, I'll call tomorrow', but that is not at all frequent."

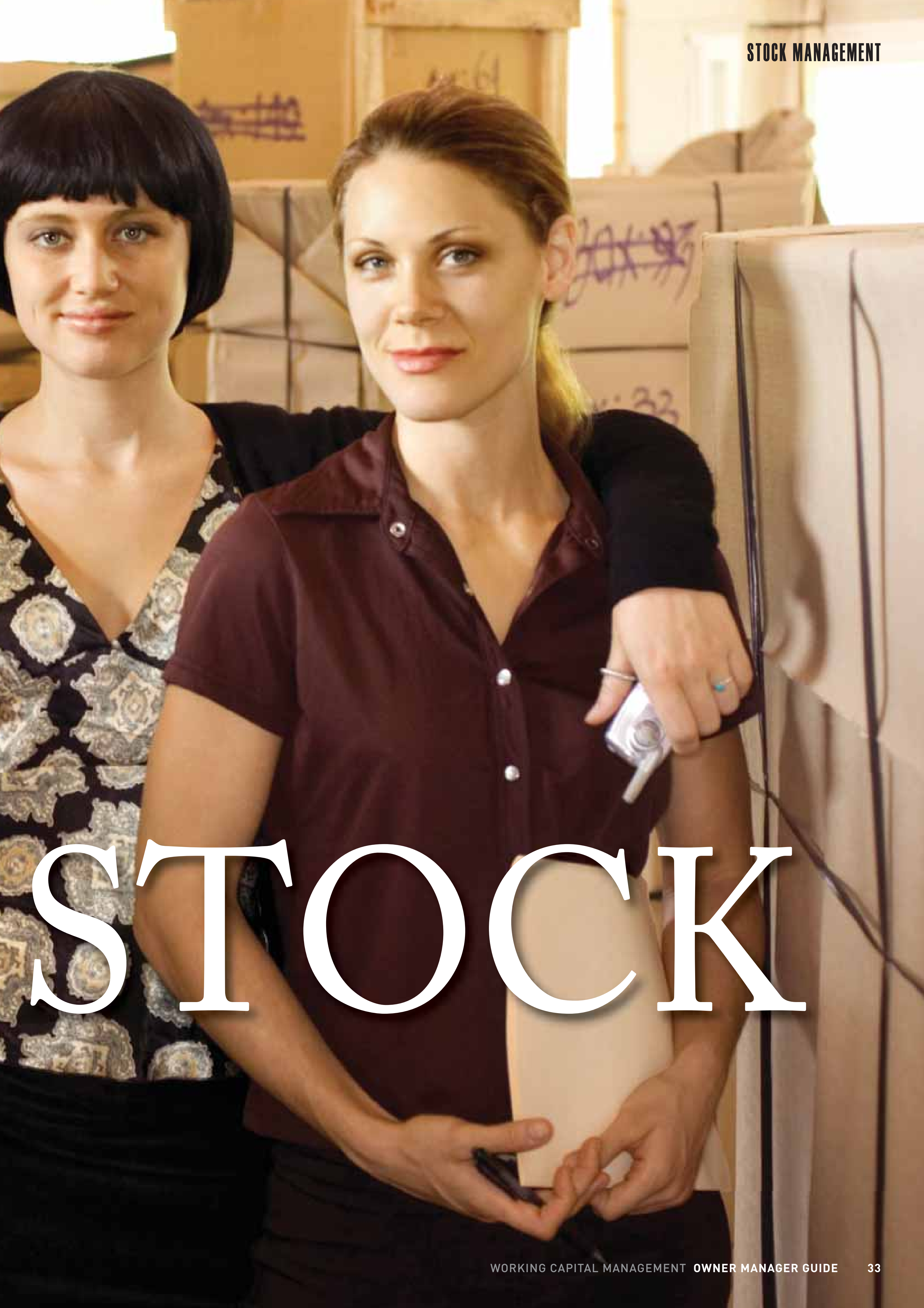
And the procedure, it seems, is painless. "If I know that we are going to have some sterling in three months' time, I simply ring my bank and ask what rate they can give me in that time. Sometimes we might call two or three banks and look for the best rate, as it can vary from bank to bank and indeed from hour to hour. The amount we pay is in the spread, so like any other business if you have a large account or if they know you call around you may get a better rate.

"What we also do on occasion is to offer varying incentives to customers to pay now. For example, we may have a 1pc discount for early settlement and 2pc for immediate cash. That's best as that way there is no exposure at all."



THE EFFICIENT MANAGEMENT OF INVENTORY IN A WAREHOUSE IS INEXTRICABLY LINKED TO HEALTHY WORKING CAPITAL, AND THE BEST WAY TO ACHIEVE THIS IS TO BE ACUTELY TUNED IN TO HOW QUICKLY STOCK MOVES OR IS LIKELY TO SELL, WRITES SORCHA CORCORAN

TAKING



STOCK

The most important thing

when it comes to inventory in the context of working-capital management is simply to know what's selling and what's not, as excessive stocks can be a drain on the cash resource of your business, while insufficient stocks can result in lost sales.

Obviously, average stock-holding periods will be influenced by the nature of your business. A shop selling perishable goods might turn over its stock every few days, for example, while a car dealer – particularly in the current climate – would be much slower because of the higher prices involved.

In fact, a car dealer is a prime example of the type of business where stock management is key to good cash flow. In January, it was reported that new vehicle sales in Ireland had plummeted by 64pc in the past year. Andrew Feighery, principal at accounting practice at CGC Associates, notes that most car dealers have cut right back on their inventories since the recession hit. "You'll notice very few cars in the forecourts. It doesn't make financial sense to have cars sitting there when they depreciate in value by the day."

Feighery recommends implementing what he calls "an ABC system" to manage your stock in the most efficient way. "Those items that are quick-moving are categorised as 'A'; the 'B' items are moderate sellers; and 'C' stock are slow sellers. If you don't categorise in this way, you're just ordering goods for the sake of it."

Stocktaking is essential, and Feighery advises doing it on a six-monthly basis. "The statutory norm is to stocktake on a yearly basis. Most companies do a stocktake at year end as routine and draw no real value out of it. However, if it's used as a management tool, whereby you carry out an ABC analysis at the same time, there is real value to be gleaned."

Another management tool coming into play now is technology to improve inventory management and cash flow. For example, the voice system developed by Heavey RF automates all aspects of warehouse management including electronic orders, which are automatically converted to speech and directed to the warehouse staff via a wireless network.

"A lot of warehouses are inefficient because they're run on paper; the information people are using to make decisions is flawed because it's not real time," says Ciaran Lavelle, sales manager at Heavey RF.

"With the voice-recognition system you receive information that's accurate up to a couple of seconds and this accuracy allows you to eliminate lost sales. Big customers such as Superquinn, Londis and Spar are accelerating the use of voice recognition in all warehouses to save them money."

In retail one of the main things to bear in mind with stock management is to know your market and be conscious of what people actually want. "You may be offered a great deal on jeans, for example, but if the style is out of date, they'll be sitting there a long time. With banks and overdrafts so aggressive now, it's become even more important to manage stock activity. The turnover of an item and its lead time on the shelf is probably more important now than profitability," says Feighery.

Taking the car-dealer example again, he says that in the current climate it's not sensible to buy in a Ferrari on which you could potentially make €40,000, but which will sit there for six to nine months. The more prudent approach is to make €1,000 each on Nissan Micras and get your money back quickly. "It's good to have a Ferrari in your shop when you can afford it, but volume of turnover is much more important now."

TIPS FOR BETTER STOCK CONTROL

- Review the effectiveness of existing purchasing and inventory systems
- Know how long delivery of components from suppliers takes
- Apply tight controls to the significant few items and simple controls for the trivial many
- Sell off outdated or slow-moving merchandise – it gets harder to sell the longer you keep it
- Consider having part of your product outsourced to another manufacturer
- Review security procedures to make sure no stock is 'going out the back door'
- Ensure the stock is properly protected and at the right temperature.

Ciaran Lavelle

CASE STUDY

MOVIANTO

Meeting the demands of a customer base that includes 1,100 pharmacies and 200 hospitals in Ireland means wholesaler, agent and distributor Movianto must control stock in the tightest way possible to optimise working-capital management.

The product range stocked in Movianto's 66,000 sq ft warehouse space includes over-the-counter medicines, ethical pharmaceuticals, cosmetic and skincare products, photographic goods and veterinary products. Around 8,000 pallet positions of stock are held on any given day.

With branches in Dublin and Belfast, Movianto services over 80 manufacturers, including eight of the top 10 global players. A division of Cahill May Roberts, it provides customised services including warehousing, order and dispatch processing and related services such as financial organisation, distribution of product samples and a complete order tracking of all transactions.

"Due to the nature of the products and their use it's imperative that stock is controlled and turned around in date sequence," says Keith McCauley, head of information technology at Movianto. "Products are classified into categories. This is done so each product can be procured in line with its sales history."

The stock value is considerable, so in Movianto's business margins for error are practically non-existent and the warehouse systems must be accurate, up-to-date and reliable. With this in mind, Movianto decided to introduce a voice-enabled system developed by Heavey RF.

The software was developed around the various applications employed by Movianto, including: goods inwards, put-away, replenishment, order-picking, order-checking and dispatch, as well as stocktaking.

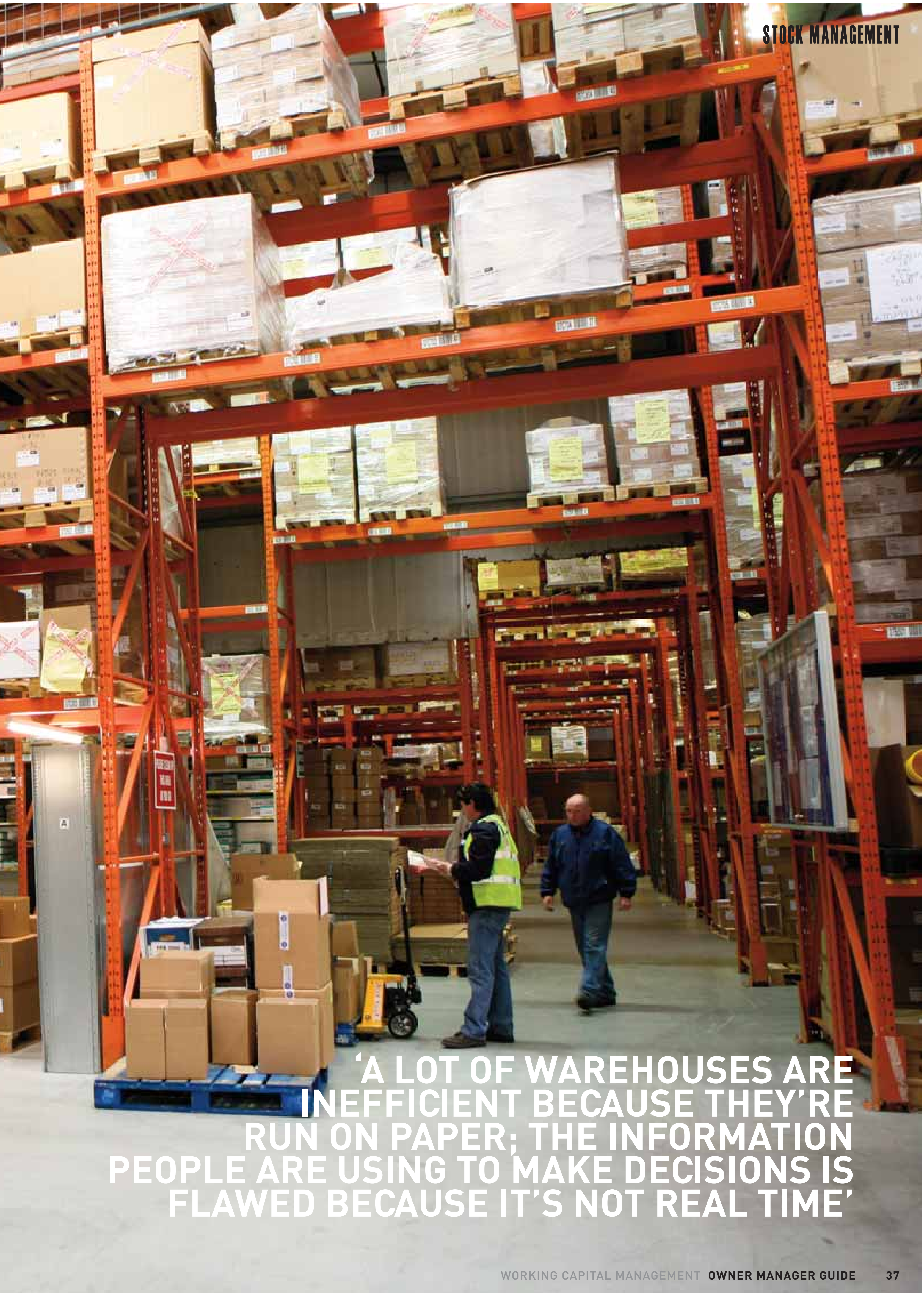
Some 40 voice terminals and headsets were installed at three Movianto warehouse sites in Chapelizod and Rathcoole in Dublin and Castlerea in Northern Ireland. All aspects of warehouse management are now automated, including electronic orders, which are automatically converted to speech and directed to the staff via a wireless network.

"Prior to introducing a voice-enabled system, we first identified that our existing paper-based system was inefficient, time-consuming and lacking the control that our business demands," says McCauley. "We felt that voice would offer all the features of a conventional system, but, in addition, we could use its unique ability to guide operatives through their day-to-day routines in a very controlled manner."

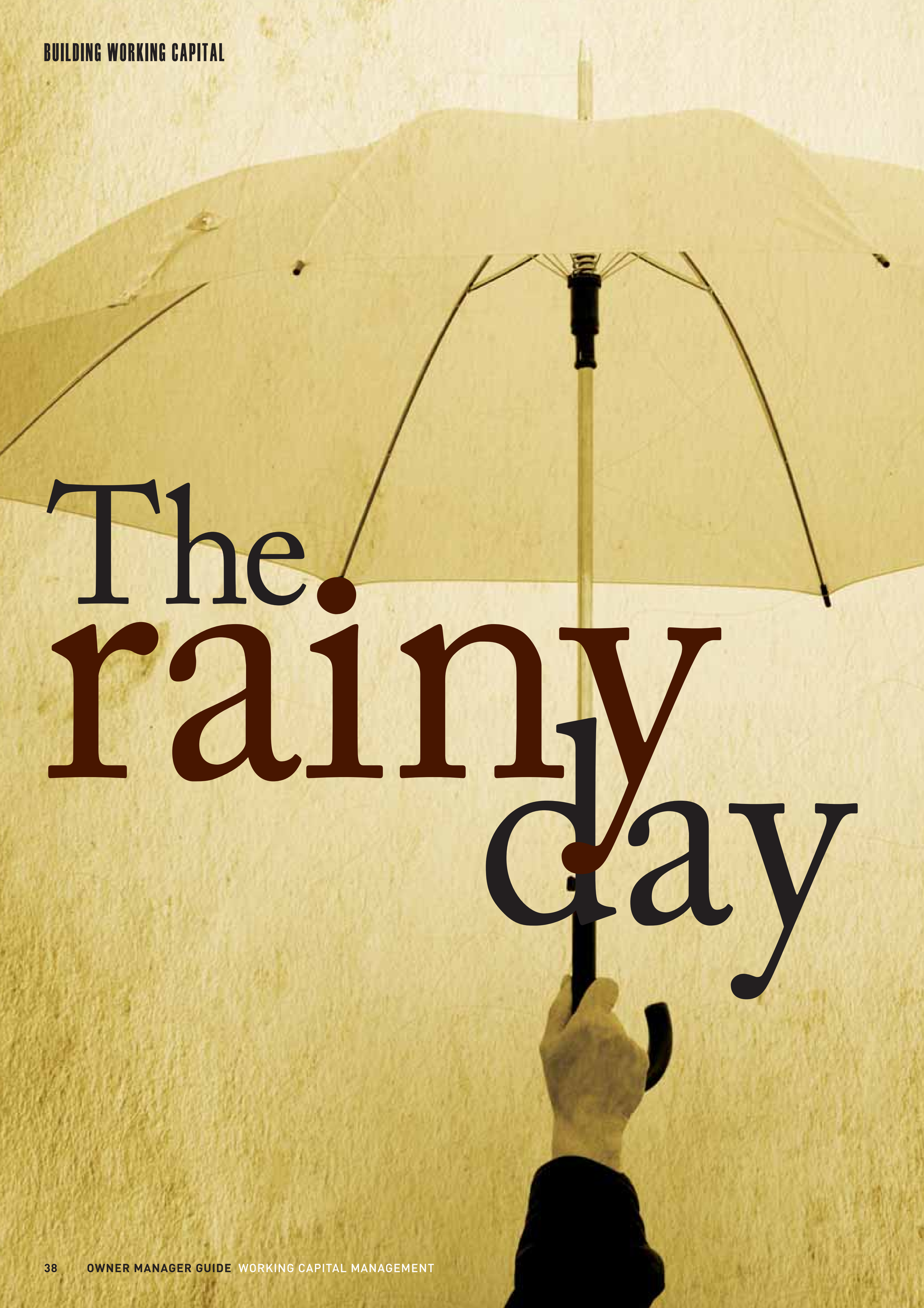
But how has this new way of working impacted on Movianto's working-capital management? "With the adoption of voice into the warehouse management system, all stock movements occur in real time," McCauley explains. "As we operate a FEFO [first-expiry, first-out] environment, it's crucial that we continuously cycle our stock while maintaining levels that can satisfy demand.

"Due to the nature of our product we must ensure that stock levels are accurate at the batch level. Voice enabled us to include batch details as part of the validation of a task, thus ensuring accuracy is maintained at all times."

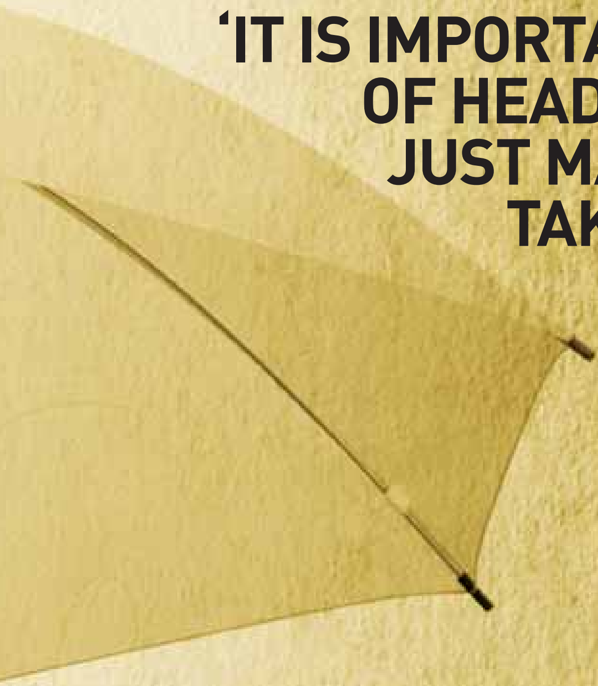
Essentially, this means cash is not tied up unnecessarily in stock, and orders are not lost because of a lack of sufficient stock.



‘A LOT OF WAREHOUSES ARE INEFFICIENT BECAUSE THEY’RE RUN ON PAPER; THE INFORMATION PEOPLE ARE USING TO MAKE DECISIONS IS FLAWED BECAUSE IT’S NOT REAL TIME’



The rainy day



‘IT IS IMPORTANT TO HAVE AN ELEMENT OF HEADROOM FOR THAT EVENT THAT JUST MAY HAPPEN. IT IS IMPORTANT TO TAKE THE SENSIBLE APPROACH AND NOT OVER-COMMIT’

fund

AS MANY ARE NOW DISCOVERING TO THEIR COST, IT IS ALWAYS WISE TO PLAN FOR THE UNEXPECTED.

IF YOU’RE ONE OF THE FORTUNATE BUSINESSES WITH EXCESS EARNINGS, DON’T NEGLECT WORKING CAPITAL ACCUMULATION, SAYS RÓISÍN KILLEEN

In order to be sustainable in the long run,

businesses must prepare for difficult times by saving during good times or just when excess revenues are available. It is essential to build working capital, or liquidity, during profitable times. This will carry the business through the inevitable periods of low returns or even losses.

In the current climate, companies that have not carried enough liquidity are finding themselves turning to lenders or selling assets to generate cash for everyday use. As many businesses worldwide are now discovering to their cost, this is not the best market in which to be trying to divest assets, or indeed to be raising urgently required finance.

In an average operating year, the owner manager needs to cover operating costs, service debt, make tax payments and extract sufficient income for his or her own living needs. In general, excess earnings then tend to go into further investment, capital replacement, paying down of debt, pension provision, and often, in the good times, to augment personal wealth. The other option, though, shouldn't be neglected – building up the company's working capital. As times get tough and you're faced with reduced revenues, you'll need that working capital to meet your operating costs, service debt and provide your income.

"It's important to have an element of headroom for that event, which just might happen," says Ernst & Young's Sinéad Munnelly, partner in the transaction advisory group. "It's important to take the sensible approach and not over-commit. At the moment companies are only going ahead with critical expansion, and they need to look at using their cash better. You'll see that those companies that are expanding today are very strong and have a lot of cash reserves."

"Prudent cash management becomes really critical in a downturn, but it also presents opportunities to challenge old ways of doing things, to take advantage of loyal customers and suppliers

'PRUDENT CASH MANAGEMENT BECOMES EVEN MORE CRITICAL IN A DOWNTURN, BUT IT ALSO PRESENTS OPPORTUNITIES TO CHALLENGE OLD WAYS OF DOING THINGS ... AND TO PLAN FOR THE CHANGED MARKETPLACE THAT WILL EMERGE'

and to plan for the changed marketplace that will emerge," says Denis O'Connor, partner at PricewaterhouseCoopers.

"Effective management will help ensure your business is best placed to come through the bad times re-energised and fit for the future. In so doing, businesses can reposition strongly for the upturn that will emerge," he says, ringing an optimistic note.

HOW MUCH IS ENOUGH?

So, how much working capital does a company need? "There is no rule of thumb. It depends on your business and circumstance," says Stewart Dunne, partner for BDO Simpson Xavier's business assurance and advisory services. "What is important is that management has accurate and reliable up-to-date information to base decisions on, and is constantly monitoring and reviewing its working-capital requirements and looking at forecasts and budgets."

"Getting the overall capital balance between long-term and short-term funding is key," says Conor Fennelly of Galway city-based accounting practice Duggan & Power. "Too often I have seen businesses fail not because they did not have the potential to be profitable, but because their capital structures were wrong, with too much short-term pressure on cash flows."

If you want to boost working capital, says Dunne, the old rule applies – work on maximising revenues by truly understanding your customers' current needs, and reduce costs. "The current economic climate doesn't mean keeping your head down. There is still potential for growth, albeit small."

As regards cutting costs, Munnelly says there are benefits to these hardened times, and the current climate can be used to a company's advantage. "At a time like this costs are actually easier to cut because suddenly everything is negotiable. The old rules are gone. People are open to talking."

CAPITAL WITHIN EASY REACH

If your company has managed to boost working capital, it will need to put it within easy reach. In most cases companies will want to invest surplus working capital in products that will allow fairly quick access to funds if the need arises. Any such investments should be assessed on the basis of risk, yield and liquidity. Short-term business deposits or savings don't tend to come with very attractive interest rates, but may guarantee the sustainability of your business in tough times, so they remain a popular route.

"Many will simply invest in simple savings or deposit accounts, but it should be noted that such income is taxed at 25pc, not the 12.5pc corporation tax rate," says Fennelly. "That said, there are products available which allow for a form of portfolio investment in deposits. Effectively, investors' funds are pooled together to invest in these deposits, thereby possibly availing of a better rate of return. Some of these funds are set up so that there is weekly liquidity available within the fund."

Such funds can also be tax efficient for Irish companies that are deemed to be close for taxation purposes. The majority of Irish resident and owner-managed companies are deemed to be 'close' companies, that is to say they are 'controlled by five or fewer participators or controlled by any number of participators who are directors'. Such companies pay a tax surcharge if they do not distribute investment and rental income. With portfolio forms of investment, the returns accumulate within the fund, and gains are only taxed on encashment.

Overall, building working capital is about managing the short-term financial health of your company, and not finding yourself firefighting. That rainy days come along is well demonstrated by current events. It makes sound business sense to plan to have a reserve on which your business can call when they do.

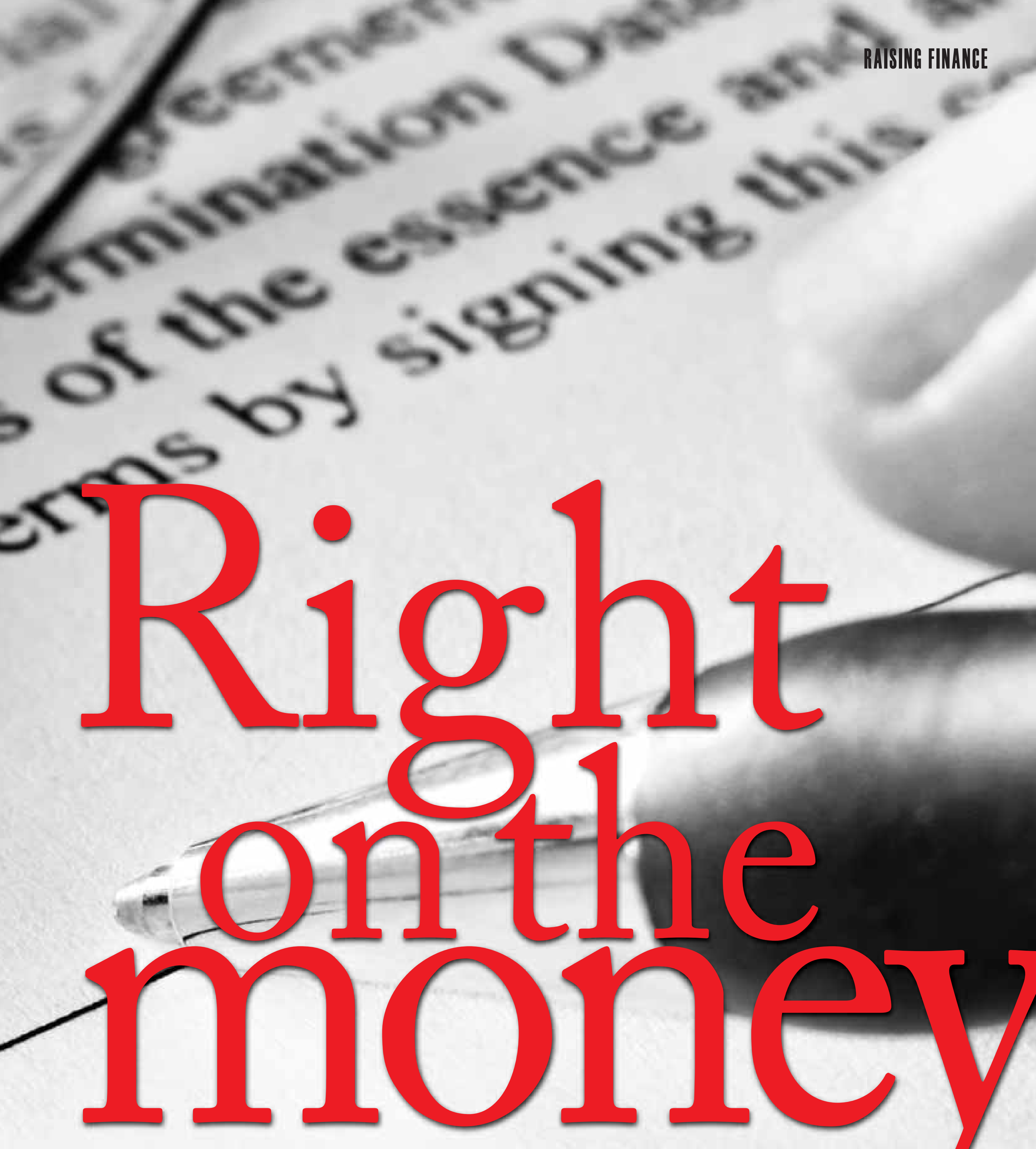

Conor Fennelly


Denis O'Connor


Sinéad Munnelly


Stewart Dunne


Sign here:



Right on the money

WHILE ALL EFFORTS SHOULD BE MADE TO FIND WORKING CAPITAL IN-HOUSE, MOST COMPANIES WILL REVERT TO RAISING FINANCE FOR SHORT-TERM OR DAY-TO-DAY NEEDS, AS WELL AS FOR THE MEDIUM TERM. MAEVE MCGOVERN LOOKS AT THE OPTIONS

Nick Linnane

Even for an established organisation,

it is important to keep a tight focus on maintaining an adequate level of working capital. Many businesses raise finance to cover their day-to-day and short-term needs, like bills and wages, from the banks. Short-term finance is also utilised to minimise seasonal fluctuations in cash flow in certain types of business.

Medium-term finance, usually up to seven years, tends to be used for purchase of assets, access to equipment, or research and development, but it also may be used for working capital purposes. Long-term finance or fundraising activities are unlikely to be used to address a temporary cash-flow deficit if one of the other options is available. It is more likely that you would avail of this option if you anticipate a future long-term cash-flow deficit.

At present more companies are finding themselves cash-strapped, according to Nick Linnane, partner at Linnane McGleenan, and needing to raise finance for operational needs. "Construction is a no-go area at the moment, for example, for obvious reasons, so anything that smells of concrete makes people nervous." And there's a vicious circle that ensues, he says, with suppliers along the chain unable to get cash in quickly enough to cover their operations. "It can't be emphasised enough at the moment that cash is king for any business."

According to Linnane, banks are naturally more cautious about advancing money given recent events, but, above all, they are rightly looking at things more closely than previously. However, a good, honest rapport with your bank should mean any viable business can talk to them about financing solutions for the short and medium term in particular. Some of the options are laid out below.

Before looking for finance from the outside, Linnane does advise that companies look at 'in-house' financing. This involves tidying up your own working capital first of all in terms of more efficient debt collection, and ensuring that you are only working with customers who pay. "Those who don't pay are more of a hobby than a customer, and hobbies are expensive. We would all have customers that don't pay us," says Linnane. "Look at your customer list and ascertain whether they are going to pay you or not. If they're not going to pay you, don't do work for them. It sounds very simple, but a lot of businesses don't implement that rule.

"You've got to make a decision on this straightaway. We're all operating on tight margins and if a customer doesn't pay for six months what you're paying in bank overdraft interest may be wiping out your margins."

SHORT-TERM FINANCE

Business overdraft facility

You may be able to obtain a temporary overdraft facility to enable your business to meet its obligations for a short period of time. This is a relatively cheap form of finance as the charges associated with setting it up are minimal and interest is only incurred for the period that your account is overdrawn. However, it is only cheap if it is genuinely a short-term solution, and can become one of the most expensive solutions if not, says Linnane.

"An overdraft facility must only be used for the short term. One practical and cost-effective way it can be used is for stocking up in the pre-Christmas period, then clearing the balance in January as customers start to pay.

"Customers, clients and companies can get into a position where they use this facility on a permanent basis, and that doesn't make sense as you are paying back very high interest rates. It's a permanent high-interest rate," he points out.

Short-term loans

In the event that you cannot or do not wish to take up an overdraft facility, this is another form of finance that is available, where interest is charged on the outstanding balance.

Invoice discounting/factoring

Not as expensive as overdraft interest, invoice discounting can be quite efficient. It basically accelerates your cash flow by turning as much as 80pc of funds tied up in unpaid debtors invoices. The balance, less charges, is then paid to you as payments are received.

One proviso, says Linnane. Ensure that you look closely at the quality of your debtor customers. "A pitfall can be getting finance in this way on an outstanding debt that may subsequently prove to be a bad debt. You then end up paying back the financial institution rather than the customer. If you have a strong debtor's book, it's not a bad way of releasing cash. But, again, there's a cost, so if you can avoid it, do," Linnane adds.

The principles behind factoring are much the same as invoice discounting, except that the factoring company takes on your credit management, and normally sends out the statements, and reminders to the debtors. The debtor payments are then paid directly in favour of the factoring business. With invoice discounting, the responsibility for good credit management and sales-ledger administration remains with your business.

‘BANKS ARE STILL HUNGRY FOR BUSINESS, BUT THEY’RE HUNGRY FOR THE RIGHT TYPE OF BUSINESS WITH THE APPROPRIATE FINANCIAL STATEMENTS, BUSINESS PLANS AND CASH FLOWS’

MEDIUM-TERM FINANCE

Term-loan finance

This is another option to getting your business out of a tight cash-flow situation in the medium term. Rather than taking a loan out over three months, it can be spread out over up to seven years to take the pressure off the business. It can be useful for funding short-term capital items – plant purchase, changing fixtures and fittings, computer equipment and so on.

Hire purchase

For plant and equipment, a hire-purchase agreement can be a good option. It allows you to use the equipment while you are still paying for it; once it is paid down, the equipment belongs to you. Basically, under a hire-purchase agreement, the asset purchased is the security against the finance borrowed.

Leasing

Leasing can be an option if you need to purchase equipment and do not have the capital to spare. You make regular payments to lease or rent the asset from a financial institution or lessor. However, it is important to note that the lessor retains ownership of the asset. So, it is not as attractive as hire purchase from that point of view.

Overall, take into account that there are costs associated with all these forms of finance and comparing the cost of different forms of finance can be complicated.

It’s advisable to obtain advice from your accountant, but key considerations should be:

- Fees
- Period of finance
- Interest rates
- Tax implications

If your business is strong and viable despite the current woes, and you have a good relationship with your bank, it may be possible to negotiate on fees, interest levels and terms. “Banks are still hungry for business, but they’re hungry for the right type of business with the appropriate financial statements, business plans and cash flows,” says Linnane, so ensure you have all the necessary paperwork in place.

While businesses should explore paying tax efficiently and cleverly, that may be less of a priority today, says Linnane. “In the current climate I wouldn’t be emphasising tax efficiency; rather cash flow should be the main focus. Your working capital is cash at the moment. Cash is No 1.”

TIPS FOR MANAGING YOUR RELATIONSHIP WITH YOUR BANK

This is the time when the investment you have made in developing a good relationship with your bank should pay dividends. You should enlist your bank’s help when reviewing your financing arrangements.

- Keep your bank informed of your position. Communication is vital
- Early and honest disclosure is paramount. Don’t ignore the warning signals
- During any period of difficulty, ask your bank to consider options such as paying interest only for a period; increasing your overdraft or funding facility; or asset liquidation
- Don’t go to your bank at the last minute and expect an immediate solution. Inform them in a timely fashion of problems coming down the line
- Back up your financial position and forecasts with clear and adequate documentation.


TAX

Taxes need not be taxing

EFFICIENT AND INFORMED MANAGEMENT OF YOUR TAX PAYMENTS CAN OFFER YOUR BUSINESS SAVINGS AND SHORT-TERM CASH-FLOW BENEFITS, WHILE STILL ENSURING YOUR BUSINESS IS FULLY TAX COMPLIANT, SAYS JULIE HERLIHY

There are many tax issues to be considered

when trying to control cash in a more economically constrained environment. Careful tax planning can result in better budgeting controls and cash flows.

From complete exemption from corporation tax for three years to fine-tuning your tax filing systems, I have set out some tax tips below that should help traders improve their cash flows and, in some cases, reduce their tax bills. While a good tax advisor who knows and understands your business will be able to alert you to any tax pitfalls and help you avail of tax opportunities that may crop up, below I have outlined some tax tips that should get you thinking about what your business can do to manage your cash flow more efficiently.

ALL TAXES

- Pay taxes on time to avoid late interest charges, which can amount to between 10-12pc per annum, depending on the tax in question. (Late payment of VAT and employer's PRSI attract the highest interest charges.)
- File annual income and corporation tax returns on time to avoid late filing surcharges, which can be up to10pc of the total liability, and restrictions on loss relief, which apply to certain returns filed late. You also decrease the risk of incurring a time-consuming, and therefore costly, revenue audit.
- File VAT, payroll and RCT returns on time to avoid late filing penalties and the increased risk of a revenue audit.
- File returns early in order to obtain tax refunds early.
- Consider paying all taxes by direct debit to help budgeting for the business and to spread the payments evenly over the year. Importantly, if turnover and profits are decreasing, remember to promptly decrease the direct debits where appropriate.

VAT TIPS

- Consider paying VAT and filing returns using the Revenue's online system, ROS. While manual returns must be filed and VAT must be paid by the 19th of the appropriate month, returns that are filed online and their associated VAT payments can be delayed until the 23rd of that month. Administration time and costs should also decrease.
- Establish whether administration costs can be reduced by changing from the normal two-monthly VAT payment and filing deadlines to a system where VAT only has to be filed and paid on a four- or six-monthly basis, or even annually. Traders whose total VAT payments for a year are €3,000 or less can apply to file returns on a six-monthly basis. Traders who pay between €3,000 and €14,000 annually can choose to start filing and paying their VAT returns every four months instead. This flexibility is obviously only of interest to traders in a constant VAT-payable position.
- For ease of administration and better budgeting, some traders pay VAT on a direct-debit basis. They only have to file an annual VAT return.
- Determine whether the business may be entitled to use the 'cash-receipts' basis for VAT purposes. This system, which allows traders to pay VAT to Revenue in connection with cash actually received rather than in connection with invoices raised, is extremely attractive from a cash-flow perspective. No VAT has to be paid to Revenue until the customer has actually paid. This basis is only available to traders who derive more than 90pc of their turnover from VATable supplies to non-VAT registered people, as well as to traders whose annual turnover does not exceed €1m.
- Traders who cannot avail of the cash-receipts basis should monitor their bad debts carefully. As VAT will have been paid to Revenue in respect of invoices raised, VAT will be overpaid where the sales turn out to be bad debts. A VAT refund can be claimed where there is no doubt that a debt is bad.
- Hotels and restaurants should be particularly careful to monitor any deposits received where the customer does not turn up. In that case, no VAT need be paid to Revenue in respect of the deposit. Any VAT paid to Revenue in this regard during the past four years should be reclaimed. This could improve cash flow significantly in times of difficulty.
- Ensure all possible VAT credits are claimed. For instance, VAT on petrol is not reclaimable but VAT on diesel is allowed.
- In all cases, remember to promptly give non-Irish-based suppliers the VAT registration number to ensure no foreign VAT is incorrectly charged to you, resulting in long, potentially expensive, refund claims.

PROFESSIONAL SERVICES WITHHOLDING TAX TIPS

- Individuals and companies providing professional services to government agencies, local authorities and semi-state

'CAREFUL TAX PLANNING CAN RESULT IN BETTER BUDGETING CONTROLS AND CASH FLOWS'

'REVENUE WILL ALLOW INTERIM REFUNDS TO COMPANIES IN TIMES OF HARDSHIP'

companies regularly have cash-flow difficulties because the agency in question is obliged to withhold 20pc of the payment for the services and pay it to Revenue instead, as professional services withholding tax (PSWT). This tax is then subtracted from the person's income tax or corporation tax bill at the year end, subject to conditions. The entities that are subject to this PSWT should remember to include this tax as 'tax paid' when calculating their preliminary tax for the relevant year.

- Revenue allow a refund (an 'interim refund') of this tax before the year end and before the income or corporation tax return is filed if the PSWT paid to date exceeds the total expected liability for the person that year and if all tax returns for the previous year were filed and the tax paid. Care should be taken to claim interim refunds where possible.
- Revenue will also allow interim refunds to start-up businesses and to ongoing companies in times of hardship in certain circumstances.

CAPITAL GAINS TAX TIPS

- Individuals will benefit from a longer time to pay their capital gains tax (CGT) in respect of disposals made in 2009. Previously, CGT in respect of the first nine months of the year was payable by 31 October of that year. The CGT for the remaining three months of the year was payable by 31 January of the following year. From 2009 onwards, CGT will be payable by 15 December for the first 11 months of the year. The CGT for December will be payable by 31 January of the following year.
- Individuals lucky enough to be about to trigger a capital gain should try to do it in the same period or later than the realisation of a capital loss. Capital losses can be used to shelter a gain in the same year or in a future year, but cannot be carried backwards.
- Companies that are about to trigger a capital gain (by the disposal of development land, for instance), should consider moving it to a group company that has a capital loss and getting this company to dispose of the asset. Surprisingly, groups cannot offset capital losses in one company against gains in another.

WAGES TIPS

- Consider the Revenue job assist scheme. An employer can claim a double tax deduction for three years for wages paid and employer's PRSI in respect of the employment of an individual who was unemployed for at least one year. Certain conditions apply.
- Reduce administration costs by moving away from paying and filing monthly PAYE/PRSI returns to paying and filing on a quarterly basis. This is only available to employers who pay PAYE/PRSI amounting to €30,000 or less annually.
- As with VAT, only one return is needed annually, where VAT is paid using direct debits.
- File and pay PAYE/PRSI online and avail of a deadline of the 23rd of the month instead of the 14th of the month, which applies to manual filers.

CORPORATION TAX TIPS

- If the tax bill for the previous year was €200,000 or less, the company qualifies as a 'small company'. This means that the company can choose to pay 100pc of last year's tax liability as this year's preliminary tax instead of estimating, and 90pc of the current year's tax. However, the 90pc test may give a much lower and more realistic figure in times of recession, so remember to check both tests before making a payment.
- If filing the annual return manually, the return must be filed and payment must be made by the 21st of the second-last month of the following year. This can be moved to the 23rd of the second-last month of that year if the return is filed online. (This only applies where a company's year end is on the 21st day or later of a month.)
- If the company started trading in 2009 and is not providing 'professional services', it might qualify for the new three-year exemption for certain companies that earn less than €320,000 annually. Check it out – it could be a valuable opportunity!

In short, improving your filing and payment methods, examination of relevant tax reliefs and incentives and avoidance of tax pitfalls can significantly improve your businesses' ability to budget, improve your cash flows and minimise costs. It's an area that's well worthy of your attention.

Julie Herlihy, a chartered accountant and registered tax consultant, is a partner with Barr Pomeroy in Dublin. She is currently chairman of the Leinster Society of Chartered Accountants and a member of the CCAB-I Taxation Committee.

Get the information you need to

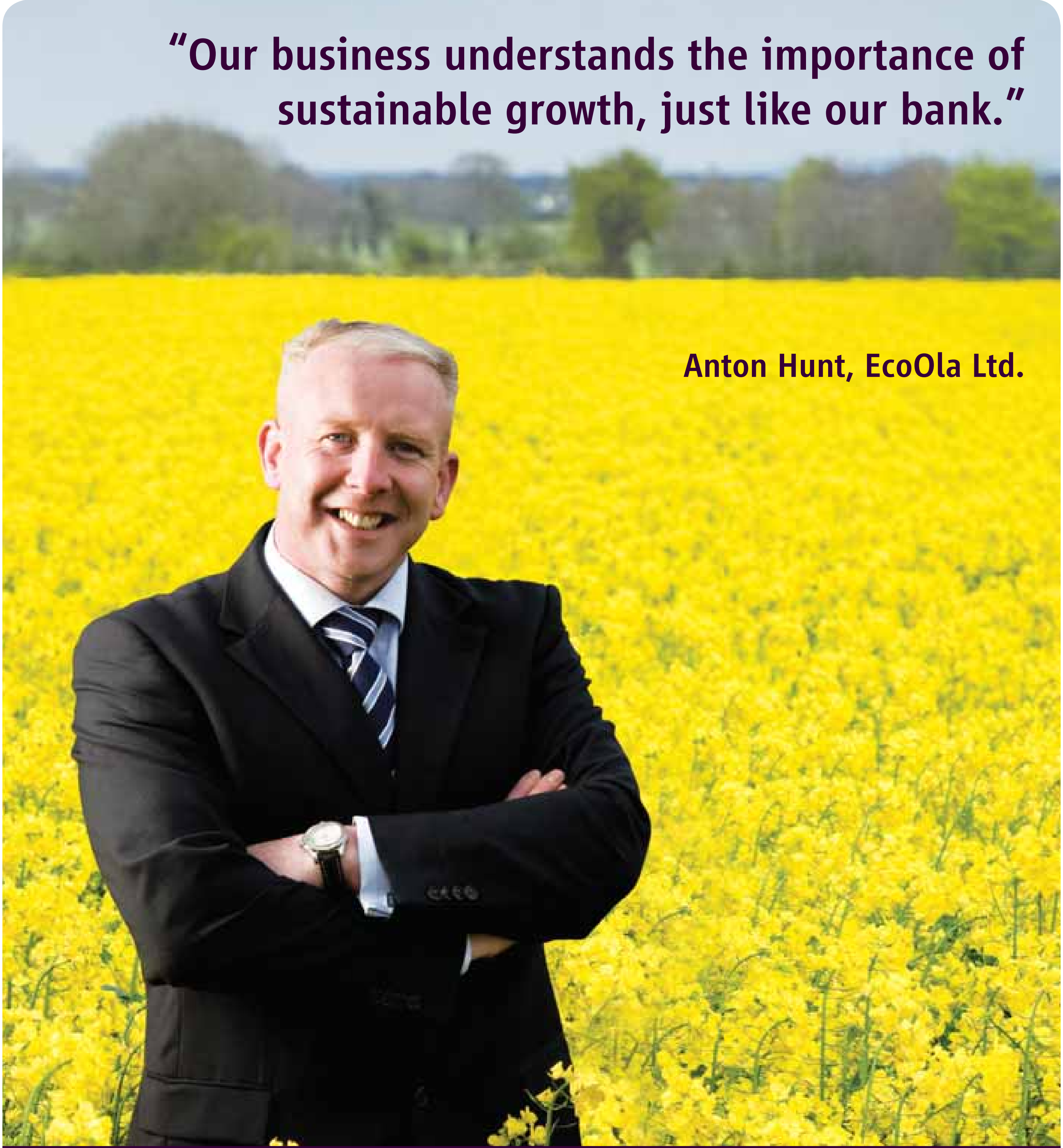
lead your business into the future

www.businessandleadership.com/owner-manager

BUSINESS & LEADERSHIP

SHARING INTELLIGENCE

HOME LEADERSHIP MARKETING TECHNOLOGY OWNER MANAGER LIFE REPORTS EVENTS VIDEO AUDIO



EcoOla Ltd. is just one of the thousands of start-up businesses who bank with AIB.

Talk to our experts about our Business Start-Up Package.

Talk to us today | 1890 47 88 33 | www.aib.ie/business

be with AIB

Terms & conditions apply. The featured customer has received a gratuity on behalf of AIB for their time in making this commercial.
Allied Irish Banks, p.l.c. is regulated by the Financial Regulator.