

ACTION IN A RECESSION

PUT MONEY FIRST, PROFIT SECOND,
TURNOVER THIRD

A Checklist of Action Points for
South African Business



MERCHANT FACTORS

Finance Beyond the Numbers

INTRODUCTION

Times are tough at the moment for South African businesses. Although interest rates are set to come down further, the economy is in a recession. Most firms face a low level of demand, pressure on their cash flow and many other problems.

Businesses, particularly many of which started up during the past decade are particularly under pressure because they don't have the financial resources of larger companies.

We have prepared this checklist to help guide your businesses – particularly small and independent firms – in some key areas of management that should be looked at in a recession.

This article “Action in a Recession” does not purport to be a complete guide and we urge you to consult relevant advisors to help you in particular areas. We hope, however, that you will find this article interesting and useful reading.

If you need assistance with your cash flow requirements, Merchant Factors would be delighted to talk to you. You will find the contact number of your nearest Merchant Factors office on the last page of this article.

ENSURE TIGHT FINANCIAL CONTROL

1. Prepare a full, up to date budget of how you really expect your business to do in the next six months in light of the current recession. Think first about your expected level of sales and then estimate your level of costs. Be honest and realistic: there's no point in trying to kid yourself.
2. Use this budget to prepare weekly cash flow projections for the next three months. Think of each type of cost and when it needs to be paid. Estimate likewise for each type of income. Update your projections every month and continue to prepare a three month, rolling, cash flow projection.
3. Work out your finance needs for the next six months in detail. In particular, make sure you will have enough actual cash resources to match your cash flow projections. Decide if you need any new external finance and review the sources available to you. Seek additional funds well in advance and not at the last minute.
4. Keep your bookkeeping up to date and monitor your accounts regularly, particularly your cash situation. Prepare a report on your performance every month. Review your cost levels carefully.
5. Ensure tight day-to-day control over cash. Limit the number of people who are authorised to spend it. Make sure every item of expenditure has a budget and is within that budget.
6. Make sure everyone in your business is cost-conscious, especially your top management. Encourage your staff to think of cost-saving ideas. Discipline staff who waste money.

PURCHASE WISELY

7. Defer any major purchases which are not absolutely necessary. You need to hold on to as much cash as you can.
8. Take as much credit as you can from your suppliers. Don't breach contractual arrangements - your company might get a bad reputation for settling bills - but hold onto your payment until a few days before it is finally due.
9. Ensure each purchase you make is really necessary and buy cheaper alternatives where possible.
10. Shop around keenly before you buy. Monitor your suppliers to spot any special prices or offers. Consider inviting a range of suppliers to tender for your business. Always try and bargain over the price you will have to pay - if you don't ask, you don't get!
11. Consider alternatives to making an outright purchase. Look instead at hiring or leasing goods and services - these techniques are far less demanding on your cash flow in the short term.
12. Take advantage of any useful services that your suppliers offer that can help keep your costs down. For instance, free delivery, supply on a “sale or return” basis, free storage of goods until needed etc.

REDUCE YOUR DEBTORS

“money your Customers owe you “

- 13.** Ensure you always have precise payment records for each of your customers. At any time you must know who owes you money, the amounts involved, how old the debts are, which debts are in dispute and what action you have taken so far to try and collect payment.
- 14.** Establish a firm credit policy and emphasise your payment terms to your customers. Also, make sure you have a standard procedure for pursuing debts, with specific actions at any given intervals, after the payment due date. One vital tip: you will find the telephone a particularly effective tool in chasing unpaid invoices.
- 15.** Credit check all new customers and review your credit line for existing customers regularly. Give each account an overall limit. Advise the customer what this is and don't be afraid to stick to it. Avoid giving credit terms at all, if you can. Consider insurance cover on your debtors in order to minimize bad debt.
- 16.** Make sure sales invoices and delivery notes are prepared efficiently. Check that they are accurate (correct registered name of the entity, registration number and VAT Number), complete, legible and are addressed to the correct person and address. Prioritise the dispatch of larger value invoices over small ones. In addition, ensure that invoices contain the standard Reservation of Ownership wording which should protect you in the event of a debtor defaulting and you not having received payment for these goods.
- 17.** Consider cash discounts and / or late interest charges to encourage early payments by customers. (Ensure that your customer has completed and signed a credit application form which discloses the fact that interest will be charged on over due accounts).
- 18.** Consider using outside specialists to accelerate customer payments and boost your cash flow. Merchant Factors for instance, can pay up to 80% of the value of each invoice you raise as well as provide you with a professional credit control, collection and debtors administration. By factoring your debtors with Merchant Factors, you effectively convert credit sales into cash sales. Merchant Factors provides the cash that is essential to the running and growth of your business and makes available experienced staff for the vital, but often neglected areas of credit control, collections and sales accounting.

ENSURE YOU HAVE TIGHT STOCK CONTROL

- 19.** Carry out a full review of your present inventory system and identify areas where you can improve efficiency and cut costs. For example, are your record-keeping and planning procedures as effective as they could be? Are your storage and delivery facilities properly organised? Do you need to hold such high stocks of raw materials?
- 20.** Focus your stock control efforts on high-price and high-volume items. If you can control these better, you will make an impact on your inventory costs.
- 21.** Minimise work-in-progress and finished goods stocks. Do this by making your production process as fast, simple and streamlined as possible. Identify and remove frequent bottlenecks. Avoid producing “just for stock.” Deliver finished products promptly.
- 22.** Look again at the design of your products to see if one or two changes could help to reduce material costs. For instance, could you substitute less expensive parts, reduce the number of different stock items used, or buy-in sub-assembled parts rather than make the items yourself.

MAKE YOUR SALES AND MARKETING EFFECTIVE

23. Review the costs and margins of each of your company's products. Drop unprofitable products and limit your selling effort to your most profitable products. Avoid extra sales unless they will actually make money fast, otherwise they will simply strain your working capital further.
24. Work out who your most valuable customers are - in terms of margins and long-term loyalty. Ensure you maintain close contact with them. Improve your relationship with them. Listen to what they say and want, and serve them well.
25. Use incentives to move slow-moving or ageing products and convert them into cash. These can be incentives to your salesmen, such as bonus added to salary, or incentives to customers or distributors such as discount or extra quantity free.
26. Focus your sales and marketing efforts on immediate lead generation rather than image building and use these proven techniques to give you direct business. Ensure your salesmen are as productive as possible with their time. And don't reward them for a sale until the customer has actually paid.

REDUCE YOUR OVERHEADS

27. Scrutinise each of your company's overheads - costs that don't vary directly with output. Significant overheads to know about include: your rent, rates, power, lighting, plant, equipment and, of course your staff costs. Ensure you have someone in your business who is responsible for monitoring and controlling overheads.
28. Look for opportunities to reduce operational overheads by simplifying the production process and working methods.
29. Cut down your staff overheads by identifying ways of organising people better, having fewer levels of management, improving productivity and making more use of contract or casual staff. Make salaries less fixed and more dependant on actual performance. In certain instances, ascertain the viability of outsourcing certain administration functions which is not only cost effective but also time saving.
30. Conduct a campaign against unnecessary paperwork. Eliminate time-consuming meetings. Drop burdensome products. Abandon seldom used reports. Make efficiency your goal.

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34. Conduct a campaign against unnecessary paperwork. Eliminate time-consuming meetings. Drop burdensome products. Abandon seldom used reports, automate where-ever possible. Make efficiency your goal.

We trust that, having read these guidelines, you will be better positioned to weather the recession and wish you every success in your business.

Should you have any cash flow requirements that you would like to discuss you are welcome to contact us.

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