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Business Sustainability through Asset Management Practices

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Abstract:

To be successful in this competitive world business has to concentrate on their strategic decisions. Strategic management is a highly important element of organizational success. Strategic success requires a clear understanding of the organization, future financial needs, competitors, market, suppliers, customers, employees and the Government. Financial strategic decisions which are framed based on the understanding of the company will help the company to gain the competitive advantage in order to sustain and grow in the business environment. One such strategic financial decision will be asset management. This contributes for the efficient management of current assets (cash, receivables, inventory) and current liabilities (payables, accruals) turnovers and the enhanced management of its working capital and cash conversion cycle. Companies must utilize this practice when their operating performance falls behind industry benchmarks or benchmarked companies. This will make the organization to yield an edge on the cash management, receivables management and inventory management practices of the company and also may help the organization to achieve optimization and customer satisfaction. This also extends to the good supply chain management which may increase the reputation of the company.

Introduction:

Survival of the fittest is the mantra of today's business world, in order to survive it is required that organization should work on their key areas by showing progress into that. To be successful in this competitive world business has to concentrate on their strategic decisions. Strategic management is a highly important element of organizational success. Strategic success requires a

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clear understanding of the organization, future financial needs, competitors, market, suppliers, customers, employees and the Government. Financial strategic decisions which are framed based on the understanding of the company will help the company to gain the competitive advantage in order to sustain and grow in the business environment. One such strategic financial decision will be asset management. Asset management is defined as the "coordinated activity of an organization to realize value from assets". In turn, Assets are defined as follows: "An asset is an item, thing or entity that has potential or actual value to an organization". This is deliberately wider than physical assets but these form an important focus for more organizations. This will make the organization to yield an edge on the cash management, receivables management and inventory management practices of the company and also may help the organization to achieve optimization and customer satisfaction.

Receivables management

Accounts receivable refers to sales made by a company or organization from which payment or total payment has yet to be made. Companies utilize accounts receivable to offer clients long-term payment plans or to establish credit.

Contribution to the Business

Proper maintenance of accounts receivable can offer several advantages to businesses of all sizes.

- **Build Customer Loyalty:** Clients should be allowed to purchase goods and services using IOU's, credit accounts or long-term payment options which can offer companies a significant sales advantage.
- **Track Customer Credit :** Data regarding past plans and purchases can allow companies to make individualized decisions about extending credit to customers who have a positive history of repayment and refusing it for clients who have spotty records.
- **Track Uncollected Profits :** Perhaps the most important element of accounts receivable is tracking uncollected profits. Non-payment data is key in organizational attempts to collect on past due accounts, establish repayment plans with clients and initiate collection procedures.

- **Overall Fiscal Organization:** In order to realize total success, an organization's accounts receivable department must be a facet of a well run financial and client management outfit, inclusive of sales, client services and business development.

Debtors and Bill receivables to total current assets of Indian Industries

Name of the Industry	(2007 – 2011)
Capital goods	40.71
Health care	30.85
ICT	31.74
Power	18.63
Diversified	20.25
Transport	21.57
Miscellaneous	22.76
Metals	14.12
Housing	13.42
FMCG	10.42
Oil and gas	13.80

From the table we can find that the debtors and receivable proportion in total current assets is very high in capital goods sector

PREPARING THE BUSINESS FOR RECEIVABLES MANAGEMENT:

- **Know what net terms mean** – If the company is going to sell their product or service on net terms, they have to first know what it means.
- **Know extending credit is right for your company** – Frankly, extending credit is not right for everyone. If a company, for example, sells cupcakes in store to customers, they won't be operating on trade credit.
- **Understanding about our self for doing it to remain competitive** – If the competition is doing it, they need to be doing it too. Giving the customers a chance to have more control over their cash flow is a great way to keep them coming back.

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- **Knowing the risk exposure and how much the company can afford to extend** – finding out the risk exposure limit of the company and extending credit accordingly
- **Making sure about the administrative abilities to do it well** – Running a credit department is tricky. It has to be efficiently organized to be done right. Ensuring some person to look after the credit part or else installing some software for the same
- **Knowing how many transactions we have and their value** – If we only have one customer, might not be right for us. If they don't pay when expected we will have NO cash coming into the business.
- **Keeping an eye on the margins** – To better understand the risk exposure, keep an eye on the profit margins. Generally, the larger the profit margin, the more credit we can extend
- **Be mindful of the cash flow** – CASH IS KING. Not only the business need a decent profit margin to extend credit, but the company needs to have access to working capital. Excellent receivables management involves having a system that will help them keep a watchful eye on the cash flow.
- **Always know who the business owe money to** – If the business are going to be expecting people to pay back the money that they owe, they should make sure that they are also in the habit of paying people back.

ESTABLISHING A CREDIT POLICY:

- **Learn from the competition** – So how do you even know what terms to set? Check out your competition. Considering all of the factors above about your company, and if you are able to, match them. If you can, try offering even better terms.
- **Setting credit policy from the beginning** – If the company plans to extend credit to a customer,it has to make sure that they inform them of all the details before the begin.
- **Setting it in writing** – Extending credit isn't just a conversation, it's a commitment. Getting everything in writing. Leaving nothing to be questioned is key in receivables management.
- **Being systematic in the policy** – In today's world, everything is transparent. Therefore, they should have a system for extending credit to the customers. Using tangible figures to decide on what terms they will operate with each customer.

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- **Being organized in the policy** –companies should implement a step-by-step process in which customers apply, are awarded terms based on the figures they provided and then are able to work towards better terms as their actions prove their credit.
- **Making sure that the policy is visibile to all customers** – As important as it is to have the companies policy in writing, it is even more important to have it visible. Posting on the company's website or somewhere where all customers can view it any time they need a reference.
- **Negotiating** – Using terms as part of negotiation. Utilizing it to win over the competition's customers by offering them better terms or use it to get your customers purchasing more.
- **Making sure all customer facing employees know the firms credit policy**
- **Deciding what the late payment consequences will be** – Before to begin with extending credit, receivables management involves making sure that the business know what's going to happen if customers don't pay on time.
- **Warning of late payment consequences early on** – Making sure to warn customers what will happen if they pay late. This will keep them from getting upset if these consequences need be applied, as they don't feel like it came out of the blue. It also, of course, will motivate them to pay on time.
- **Deciding whether to reward early payers** – Rewarding people for paying early is something some in receivables management do. Not only does it motivate people to pay early (therefore, on time) but it also is a great way to say thank you to your loyal customers.
- **If early payments are there passing the information to customers**

MONITORING PAYMENT TERMS:

- Monitoring existing customers
- Taking away net terms from existing customers that have red flags
- Having an action plan for the expected red flags
- Making sure employees know to flag any odd financial behavior from a customer
- Categorizing the customers

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- Always keeping customer information up to date
- Keeping the relationship
- Sending personalized holiday greetings
- Taking note of other personal occasions

GETTING PAID ON TIME:

- Making sure that the invoicing system is up to date
- Sending invoices to customers through multiple platforms.
- Business should not wait
- Finding out why they are paying late
- Understanding that some situations are forgivable
- Staying professional
- Business should put itself in their customer's shoes
- Keeping communication professional
- Forcing them to communicate

APPROACHES OF RECEIVABLES MANAGEMENT

- Looking at trade credit insurance.
- Looking at factoring
- Looking at the Receivables Exchange Using a collection lawyer in the right situation.
- Reporting late paying customers to the credit bureaus

Credit and collection benefits through outsourcing includes:

- Full service collections
- A final demand letter has to be sent from a collection attorney.
- Every available remedy including filing non-responsive debtors with credit bureaus nationally and litigation
- The online programs are easy to use and results are guaranteed

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Cash management

Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. The goal is to manage the cash balances of an enterprise in such a way as to maximize the availability of cash not invested in fixed assets or inventories and to do so in such a way as to avoid the risk of insolvency. Factors monitored as a part of cash management include a company's level of liquidity, its management of cash balances, and its short-term investment strategies. Cash management is particularly important for new and growing businesses. Cash flow can be a problem even when a small business has numerous clients, offers a product superior to that offered by its competitors, and enjoys a sterling reputation in its industry. Companies suffering from cash flow problems have no margin of safety in case of unanticipated expenses. They also may experience trouble in finding the funds for innovation or expansion. It is, somewhat ironically, easier to borrow money when you have money. Finally, poor cash flow makes it difficult to hire and retain good employees.

Cash and Bank balances to Total current assets of Indian Industries

Name of the Industry	(2009 – 2011)
Power	34.80
Oil and gas	28.16
Transport	29.08
ICT	23.81
Metals	23.73
Housing	14.14
Miscellaneous	21.86
Capital goods	15.72
Diversified	14.73
Health care	14.57
FMCG	18.23

From the table we can find that the proposition of cash and bank balance in comparison to current assets is very high in Power industry

CASH COLLECTION AND DISBURSEMENT

Cash collection systems aim to reduce the time it takes to collect the cash that is owed to a firm. Some of the sources of time delays are mail float, processing float, and bank float. Obviously, an envelope mailed by a customer containing payment to a supplier firm does not arrive at its destination instantly. Likewise, the payment is not processed and deposited into a bank account the moment it is received by the supplier firm. And finally, when the payment is deposited in the bank account oftentimes the bank does not give immediate availability of the funds. These three "floats" are time delays that add up quickly, and they can force struggling or new firms to find other sources of cash to pay their bills. Cash management attempts, among other things, to decrease the length and impact of these "float" periods. Once the money has been collected, most firms then proceed to concentrate the cash into one center. The rationale for such a move is to have complete control of the cash and to provide greater investment opportunities with larger sums of money available as surplus. There are numerous mechanisms that can be employed to concentrate the cash, such as wire transfers, automated clearinghouse (ACH) transfers, and checks. The tradeoff is between cost and time.

Another aspect of cash management is knowing a company's optimal cash balance. There are a number of methods that try to determine this magical cash balance, which is the precise amount needed to minimize costs yet provide adequate liquidity to ensure bills are paid on time (hopefully with something left over for emergency purposes). One of the first steps in managing the cash balance is measuring liquidity, or the amount of money on hand to meet current obligations. There are numerous ways to measure this, including: the Cash to Total Assets ratio, the Current ratio (current assets divided by current liabilities), the Quick ratio (current assets less inventory, divided by current liabilities), and the Net Liquid Balance (cash plus marketable securities less short-term notes payable, divided by total assets). The higher the number generated by the liquidity measure, the greater the liquidity and vice versa. However, there is a tradeoff between liquidity and profitability which discourages firms from having excessive liquidity.

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CASH MANAGEMENT IN TROUBLED TIMES

During downturns in the economy, declines in sales and poor cash management can spell the death knell to a small or startup business. In tough times, such as the recession of 2008-09, banks may tighten up the revolving credit or short-term loans that businesses often rely on to sort out cash management troubles. At times like these, business managers or owners need to sit down and undertake cash management analysis so that they can address shortfalls, increase revenues, and cut spending -- before it's too late. They need to meet with department heads and employees and take control and adopt a better cash management plan. The plan may call for some harsh measures, but if employees are involved they will understand that these are needed for the business's survival.

Even during economic boom times, many small businesses experience cash flow difficulties, especially during their first years of operation. But entrepreneurs and managers can take steps to minimize the impact of such problems and help maintain the continued viability of the business.

Steps to incorporate good cash management practices

- Creating a *realistic* cash flow budget that charts finances for both the short term (30-60 days) and longer term (1-2 years).
- Redoubling efforts to collect outstanding payments owed to the company. "
- Offering small discounts for prompt payment.
- Consider compromising on some billing disputes with clients. Small business owners are understandably reluctant to consider this step, but in certain cases, obtaining some cash-even if your company is not at fault in the dispute-;for products sold/services rendered may be required to pay basic expenses.
- Closely monitoring and prioritizing all cash disbursements.
- Contacting creditors (vendors, lenders, landlords) and attempting to negotiate mutually satisfactory arrangements that will enable the business to weather its cash shortage .
- Liquidate superfluous inventory.

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- Assess other areas where operational expenses may be cut without permanently disabling the business, such as payroll or non-strategic goods and/or services with small profit margins.

Other best practices include:

1. **Using technology to shorten the cash conversion cycle** :By delivering invoices electronically rather than via mail, they can speed up billing and collection. By implementing a vendor portal, they can give vendors electronic access to invoices, enable electronic payments and it will reduce the time it takes to resolve solutions also tend to provide organizations with timely and robust reporting that can help the business to take proactive steps to resolve delinquent accounts or take advantage of supplier discounts.

2. **Optimizing the financial functions:** There are a wide range of optimization techniques they can adopt to improve cash management. For instance, effective accounts receivable practices include reducing error rates on invoices and adopting a regular schedule to follow up on collections. Effective accounts payable practices include negotiating favourable terms and rebates with suppliers, issuing purchase orders for new orders, using available volume rebates and trade spend initiatives, and periodically benchmarking vendor contracts against industry standards.

3. Making it visible – cash flow reporting : To truly foster a cash management culture, they need to actively track their cash flows. Forecasting is a critical step in cash management and ultimately improving profitability. This involves looking at both income and cash flow statements, and linking their cash flow forecasts to key working capital metrics from the balance sheet, such as DIO (days inventory on-hand), DSO (days sales outstanding) and DPO (days payables outstanding). As well, be sure to include capital expenditures, debt repayments and other operating cash flows so that management is aware of the full spectrum of cash requirements.

4. Matching funding to your cash flow obligations : Every business has both short- and long-term cash flow obligations. Short-term requirements encompass day-to-day operational expenses. Longer-term obligations typically refer to capital project investments and term debt maturities.

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Inventory management

For distributors and manufacturers alike, the challenge of keeping the right amount of stock is central to operations. As customer expectations continue to rise, inventory management provides competitive advantage for those who get it right.

Inventories to total current assets of Indian Industries

Name of the Industry	(2007 – 2011)
FMCG	41.52
Metal	29.95
Housing	30.01
Health care	26.03
Miscellaneous	23.71
Oil and gas	26.14
Transport	21.26
Capital goods	26.75
Diversified	26.16
Power	4.88
ICT	1.38

From the table we can find the usage of inventory in FMCG is high compared to the other sectors

Holding period of Inventories in various sectors

Name of the Industry	Holding period in days
FMCG	31.37
Health care	18.65
Metals	19.03
Oil and gas	13.34
Diversified	11.88
Transport	8.89

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Capital goods	8.06
Housing	4.26
ICT	5.37

From the table it is clear that the holding period of inventories is very high in terms of FMCG goods

Disadvantages of not having a proper Inventory Management system

- **Overstock.** Excess inventory lowers turnover and ties up cash.
- **Stock-outs.** Backorders, lost sales and dissatisfied customers result when stock is out.
- **Accurate stock information.** When the quantity in the warehouse doesn't match what in the computer, employees get frustrated and customers get mad.
- **Inventory lost in the warehouse.** It not good for business when stock is out there somewhere but can't be found right now.

Improving management through ERP

Implementing an ERP system to better manage inventory can give you a distinct competitive advantage. In addition, effective inventory management will maximize net profit by minimizing your inventory investment.

With automated management of the inventory that is already in the warehouse, stockroom or store, they can:

- Knowing what kind and how many of each item they have.
- Knowing exactly where each item is located.
- Ensure inventory stays in salable condition.
- Minimize the cost of filling customer orders.

Customers expect the company to know what stock they have and be able to deliver it when promised. With an ERP-based inventory control system they can maintain the right quantity of the right item in the right location at the right time.

It also helps them to find the right balance with effective inventory management with an affordable ERP system that helps to deliver on-time and on-budget.

In addition to the physical monitoring of materials being moved into and out of the stockrooms and drawing up reconciliations of the inventory balances, other tasks involved in inventory management may include tracking and reporting of replenishment techniques, analysis on the actual and projected inventory status as well as setting periodic targets and re-engineering the execution framework. Other tasks include good practices such as:

- Making accurate entries for physical stock received into the inventory tracking system,
- Establishing a replenishment strategy on all inventory items,
- Establishing specific guidelines on the control of excess inventory as well as on-going dead stock.

Such effective inventory management habits will give any kind of businesses a superior competitive advantage over their competitors, especially with an easy-to-use stock analysis tool that delivers quick and accurate information.

Lack of knowledge on the part of employees is one major distraction when you are attempting to create effective inventory management systems. There could be several problems to address in this circumstance. Typically the root problem is the lack of any kind of effective inventory management strategy. There may be a strategy, but there is a lack of efficient systems and communications to enable effective execution. CFOs are in a position in which they can determine the courses of action to create effective inventory management. These actions typically involve training employees in effective inventory management techniques, including proper labeling and stocking of product, inventory tracking systems, and ordering strategies.

In every kind of business, inventory management consists of a series of processes on the multiple functions with reference to the tracking, handling and managing of goods and materials that are held in stock. Efficiency in effective inventory management will always give a competitive edge to the business, regardless of its nature. In addition to cutting down on operating costs, it will also bring satisfied customers back for more business in the near future. Harvest CFOs bring to companies significant skill and experience in implementing and executing on effective inventory management to increase profitability and create a needed competitive edge.

Advantages of a Proper Inventory management system

- **Customer Service :** An increase in customer service levels results from having a highly defined and working inventory control policy. Imagine two competing companies: company A has very defined inventory control policies and company B has very few policies in place. A customer calls company B to place an order. Company B inventory system says it does not have the product available and the wait time would be three weeks. The customer then calls company A and company A has the product available and can ship the same day. Nothing abnormal happened here except that company B did have the product available. But because no one received the product in the system, the customer service person could not see the available inventory. Company B lost the sale and possibly any future sales from this customer. Company A gets the sale and probably all future sales from this customer. It also maintains a higher fill rate (the number of orders filled divided by the total number of orders received).
- **Labor Cost :** Well-defined inventory control policies can reduce the labor costs associated with managing the inventory. Each time inventory gets handled, whether to move it from one location to another, to retrieve it for order picking or to put it away for storage, it involves labour. This handling makes up part of the cost associated with managing inventory. Companies prefer to handle the inventory as little as possible. When a company constantly searches for lost inventory, moves inventory from one location to another because of poor space utilization or handle the inventory multiple times, it results in increased labor costs. Properly managed inventory reduces these incidents and reduces the labor cost associated with the inventory.
- **Inventory Costs :** Lower inventory cost is a definite advantage for the company that effectively controls its inventory. Business owners need to fully understand the costs of carrying inventory, not just how much the inventory costs to purchase. Inventory carrying costs consist of all the expenses a company incurs for owning inventory. These expenses include the cost of capital, storage and risks costs (including obsolescence, damage, theft

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and deterioration) plus the appropriate taxable amounts. Effective inventory control reduces these costs because it reduces the total amount of inventory required to manage the business.

- **Bottom Line :** The company that effectively and proactively controls and manages its inventory has a competitive advantage over the company that has lax inventory control policies and procedures.

Ways to control Excess or Shortage of inventories

ABC Control

ABC inventory control is a method of classifying and controlling inventory according to its level of importance. Typically, dollar usage serves as the criteria used to determine importance, but other criteria, such as sales volume, also gets used. ABC inventory control works on the old 80/20 rule--a small amount of items normally dominate the results in most situations.

Aggregate Control

Another inventory control method involving groups is the aggregate control method. Using this method, a business classifies its inventories into separate groups, each receiving a different level of inventory control. For example, a bakeshop might use three different ingredients such as flour, sugar and cream comprise one classification, work-in-process or partially finished items comprise the second classification and finished goods or items ready to sell make up the third classification. The way the bakeshop controls each class of inventory depends on the rules established for that class. For example, all ingredient inventories might use a minimum/maximum policy--whenever the inventory reaches a minimum level, the bakeshop orders more inventory to reach its maximum inventory level.

Safety Stock

Some companies use a very basic method of inventory control called safety stock. Companies use safety stock because of the uncertainty of consumer demand, uncertainty of supplier performance or uncertainty of product availability. Safety stock represents an amount over and above the average use or demand of a product. For example, a bakeshop monthly flour usage averages 300 pounds. Because the bakeshop uses a special process to procure flour, it always keeps an additional 50 pounds on hand to cover the uncertainty of supply. Using safety stock to control inventory increases a companys cash outlay, plus it increases the carrying cost associated with owning inventory.

Conclusion:

A company with proper asset management system with the inclusion of receivables management, cash management and Inventory management can definitely overcome their problems related in terms of cash which will ensure them sufficient cash balance for their operations, execution and also will help them in their further progress. This asset management thus helps them to gain the competitive advantage which properly maintained will become their regular practice sustain and flourish in the field they are.

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