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## **High performing companies focus on cash and working capital management**

*“The importance of preserving cash in a downturn”*

**The credit crunch is seriously impacting the ability of companies to raise money and service their debts. Simultaneously, cash flow is being squeezed by customers lengthening payment terms and suppliers tightening credit lines. A recent international KPMG survey revealed that customers were attempting to stretch payment terms and were seeing suppliers demand earlier payment of invoices. The majority of respondents said the credit crunch was substantially reducing their access to credit or significantly raising the cost of that credit. “Our experience suggests that the situation is similar for Hungarian businesses,” says Balázs Gál, Transaction Services Partner at KPMG in Hungary.**

The key findings of the study *“The importance of preserving cash in a downturn”*, based on responses from 556 European and American companies are the following:

- **Companies are focusing on short-term fixes:** Of concern is that, in focusing on short-term fixes, companies fail to drive through sustained improvements to working capital performance, particularly in the areas of more accurate forecasting, designing better incentive packages and improving communication to different parts of the enterprise. Short-term fixes also increase the risk of driving suppliers into financial distress, potentially resulting in significant costs to the business if production is halted and customer orders are delayed.
- **Cash flow forecasting isn’t accurate enough:** Only 14 percent of respondents said their forecasts were on target during the past 12 months and more than a quarter said their forecasts were out by greater than 30 percent. Improving cash flow forecasting requires managers to establish clear reporting formats and clear lines of responsibility for all budget holders, as well as challenging and reviewing submissions.
- **Incentive packages should be correlated with working capital performance:** The research demonstrated that the best-performing organizations link working capital

performance to managerial incentives. Those that link incentives to cash and working capital did better over the last three years and expect to suffer less over the next three years.

- **Successful working capital programs require consistent executive sponsorship and alignment of goals and incentives across functions:** More than 80 percent of respondents said that consistent executive sponsorship was important to the success of a working capital program. Of highest importance was achieving clear alignment of goals across functions and driving these down to the individual level.

For business organizations, cash means flexibility: the ability to make acquisitions, to invest in new plant and machinery, to develop new products and services and to take on new staff. It means the capacity to absorb defaults by customers and the exposure to bad debt. It means the ability to raise credit ratings and gain improved credit terms from suppliers.

“When cash from external sources is in such short supply, it is the businesses that can find and release cash from their working capital and other areas across the business that will be best positioned to respond to market changes and preserve and create value for their shareholders/owners,” says Balázs Gál.

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