



## Cash Flow and Financial Management for SMEs Practical Measures for SME During Turbulent Times

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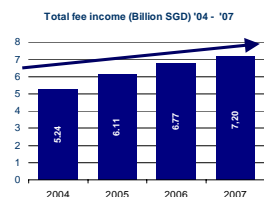


“The greatest achievements arise from the combination of competence and enthusiasm for something”

## BDO International & BDO Raffles

**BDO International is the fifth largest network of accounting and consulting companies in the world**

- Founded in 1963
- International Executive Office in Brussels
- 1,095 offices in 110 countries
- Over 44,000 partners & staff
- Total fee income: USD5.14 billion in 2008
- Member of all international professional institutions (IASC, FEE, etc.)



### BDO Raffles

- Establishment and Development
  - Original firm founded in 1972
  - In 1979 became a member firm of BDO International network
- More than 290 partners and staff
- Provide a comprehensive audit, tax and advisory services to diversified industries
- Our clientele includes SME, MNC, Listed Companies and non-profit organisations
- One of the leading accounting and business advisory firms in Singapore
- Active participation in the professional bodies and technical committees



## Our Business Entities and Divisions



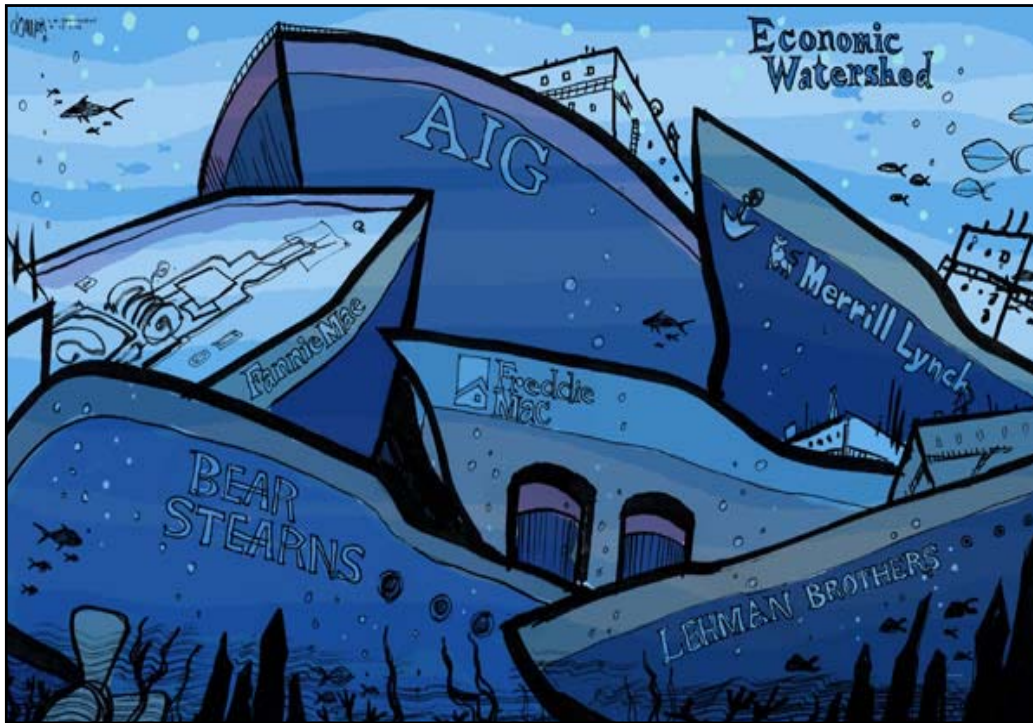
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## Business Advisory Services

- **Transformation Advisory**
  - Bank Loan Acquisition
  - Equity Fund Raising
  - Cash Flow Improvement
  - Performance Enhancement
- **Corporate Advisory**
  - Mergers and Acquisitions
  - Alliances / Joint-Ventures
  - Corporate Reorganization / Restructuring
  - Fund raising (strategic / financial investors)
- **Capital Market Services**
  - Pre-IPO Advisory
  - IPO Planning
  - IPO Project Management

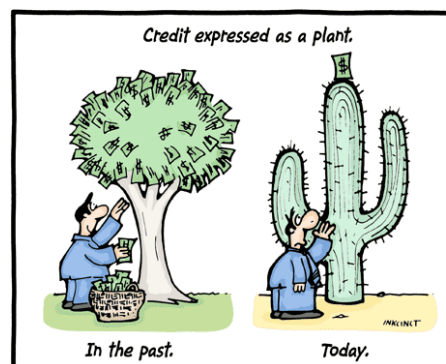


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## Impacts of Credit Crunch to Growing Businesses

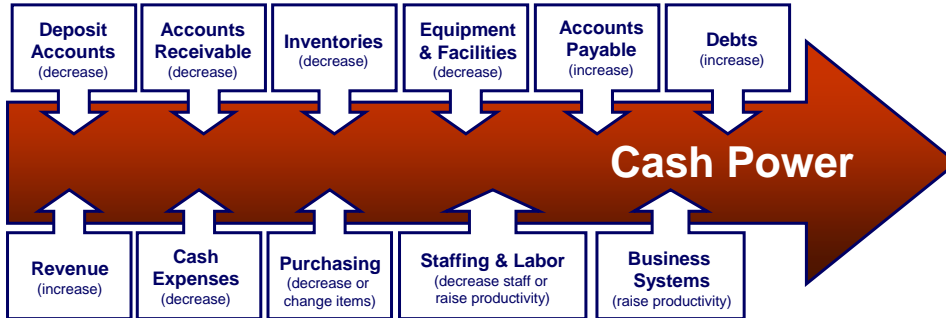
- Tight working capital and constraints in capital market financing
- Debt repayments challenges
- Higher interest expenses & equity risk premium
- R&D and/or product development projects at stake
- Slowing sales impacting firms with high operating and financial leverage



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## Cash Power Enhancing Techniques

### Balance Sheet – “Stocks” of Cash



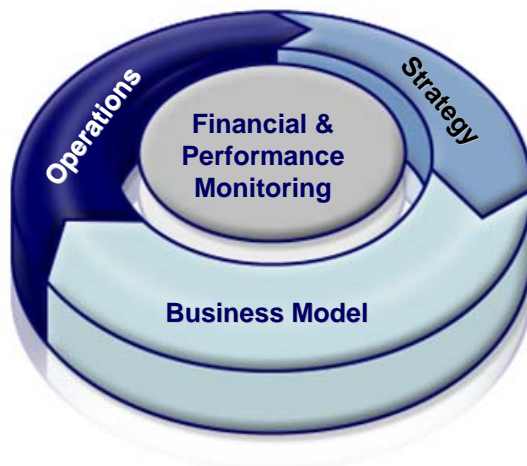
### Business Operations – “Flows” of Cash



Source: E-Myth Mastery

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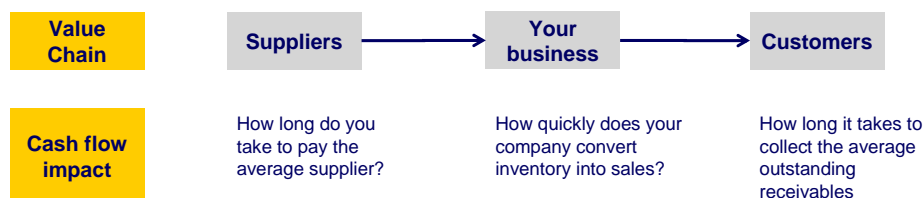
## Key Drivers of Business Transformation



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## Case Study on Cash conversion cycle: The Basics

Minimise the time between outlay of cash and cash recovery



$$\text{Cash conversion cycle} = - \text{Days payables outstanding} + \text{Days inventory out} + \text{Days sales outstanding}$$



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## Cash conversion cycle: An Illustration

The business model and company financial policies drive the cash flow

FY 2008	HP Inc. (in US\$ M)	Dell Inc. (in US\$ M)
Sales	91,697	61,133
COGS	69,342	49,462
Inventory	7,879	1,180
Receivables	16,928	5,961
Accounts Payables	14,138	11,492
Inventory Days	41.47	8.71
Receivable Days	67.38	35.59
Payable Days	74.42	84.80
<b>Cash Conversion Cycle (days)</b>	<b>34.44</b>	<b>(40.51)</b>

- Dell uses its scale to obtain favorable trade credit terms from suppliers = **Higher payables**
- Customers order computers online and pay using credit card - Dell collects payments from customers first = **Lower receivables**
- Just-in-time manufacturing = **Lower inventory**



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## Cash conversion cycle: Why it matters?

### Reduction in working capital can improve your profits

Back-of-Envelope	
Cash conversion cycle	34 days
COGS	\$69.3 billion
Working capital needs (\$69 billion x 34 / 365 days)	\$6.5 billion
Interest rate	8%
Cost of working capital (\$6.5 b x 8% x 34/365 days)	<b>\$48 million</b>

If cash conversion cycle is halved to 17 days, HP saves ~\$24m in interest costs!

By carefully managing your cash conversion cycle, you can:

- Reduces the amount of working capital (and financing costs) required for your business
- Improves liquidity of the company
- Reduces exposure to bad debts



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## Strategies for Success in Turbulent Times

1. Change your mindset and attitude. Seize opportunity to build cohesion and teamwork.
2. Make a commitment to grow and manage costs.
3. Get emotional support and buy-in from shareholders, management and staff first before committing to external stakeholders.
4. Set realistic objectives and goals
  1. Prepare business plan and KPI
  2. Prepare profitability budget for next 12 months
  3. Prepare cash flow forecast for full 12 month
5. Identify and measure key metrics through performance monitoring system.
6. Enjoy formulating options and detailed action plan. Seek advisor if need be.
7. Engage everybody to participate in either increasing sales or decreasing costs.
8. Communicate quick wins and cashflow management processes organization wide.



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## Your Contacts

Your questions will gladly be answered by:



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