Managing current assets

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Effective working capital management is all about keeping the investment in the current assets under control so as to minimise the amount of funding required.

So what does "keeping the current assets under control" actually mean in practice?

In this context there are really only two current assets that can be managed and which have a significant impact on cash

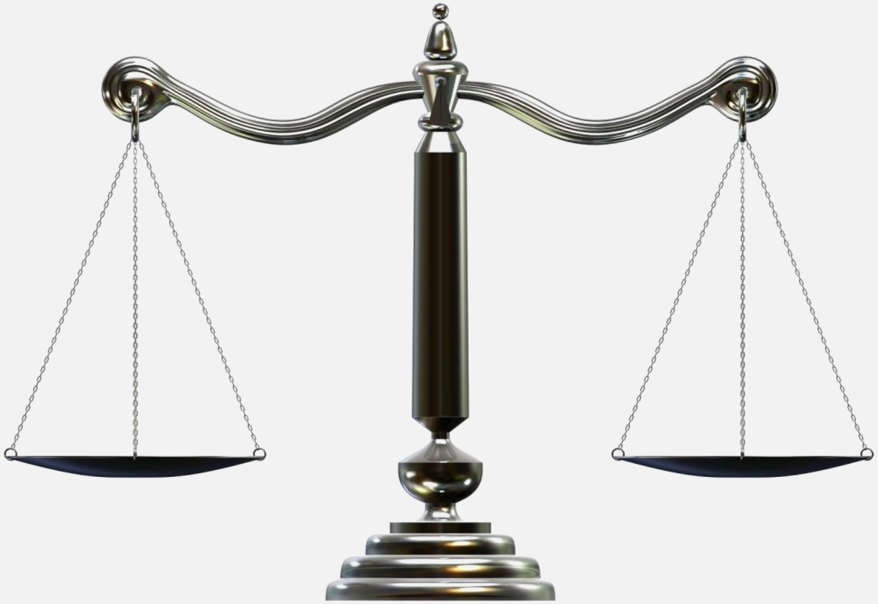
Stock (inventory)

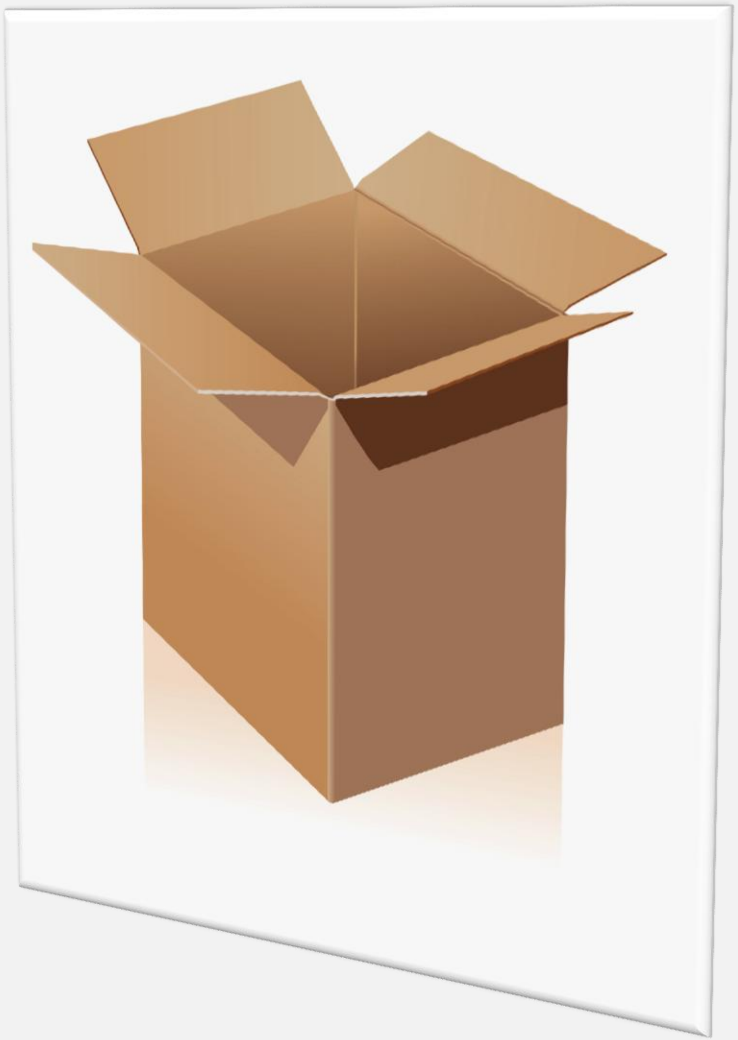
and

Trade debtors (accounts receivable)

Stock (inventory)

Managing stock is always a fine balance between having enough to meet customer demand and having too much that just sits on the shelves or in the warehouse





When it comes to managing stock, businesses should seek the *optimum* level of stockholding, not the *minimum* level – running out of stock could be disastrous

Some reasons for business to hold a lot of stock

- The stock comes from a far away country and takes a long time to get here
- The stock may soon be going up in price
- The stock is in short supply generally
- The stock is much cheaper if bought in bulk
- There is only one supplier of the stock and the supplier has all the bargaining power

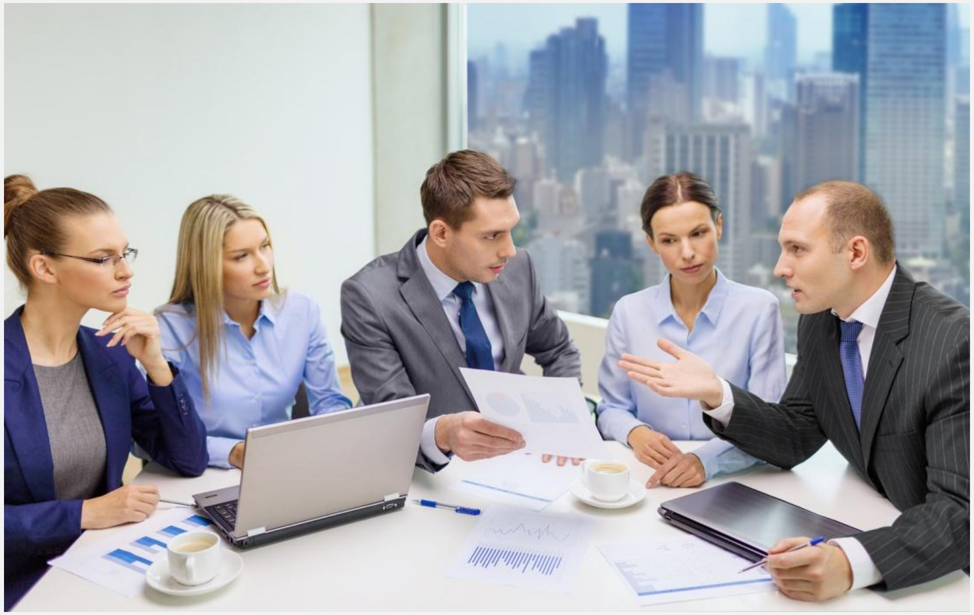
But that’s only okay if the stock is not perishable – there are lots of reasons why stock levels should be kept low too

Some reasons for business to hold very little stock

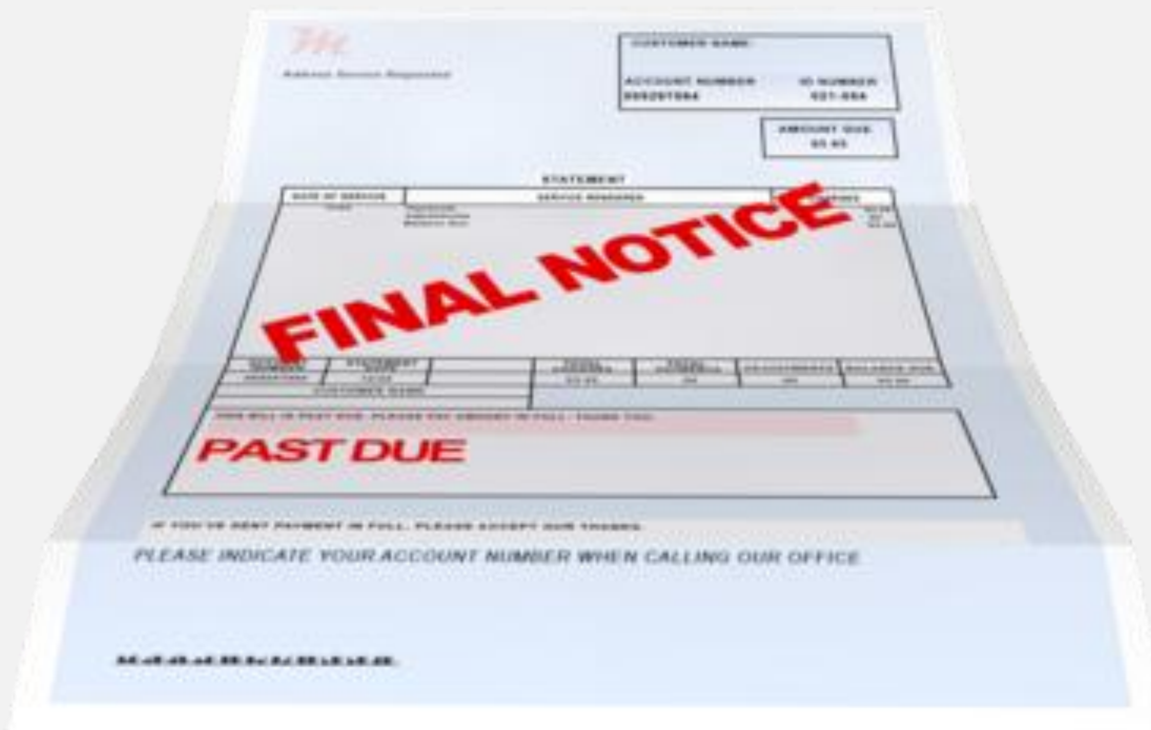
- The stock comes from a local supplier and takes a very short time to obtain
- The stock may soon be going down in price
- The stock is easily available from a range of suppliers – the suppliers have little bargaining power
- The stock is likely to become obsolete (e.g. electronics)
- The stock is perishable and will soon deteriorate
- The stock has to be insured and warehoused adding expense to the business

Trade debtors (accounts receivable)

Managing trade debtors is always a fine balance between allowing reasonable credit terms in keeping with the norm in the specific industry and …



……….collecting from them when payment is due without annoying them and driving them to the competition



Businesses are more likely to take a soft approach to collecting from trade debtors – especially when the economy is struggling and customers are not easy to find


Maybe this isn't a good idea

So businesses that have to hold higher levels of stock and are reluctant to collect from trade debtors ……

…..are the ones that have the most invested in working capital and usually need significant overdraft facilities

We do hope that you enjoyed this presentation.

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