

In Brief*

Control your cash flow; control your destiny

It's all about cash flow. It doesn't matter how much money is coming in the future if you don't have the cash to get through the present. More businesses fail due to lack of cash flow than for lack of profit.

Challenges facing Alberta companies

- Tight credit markets
- Rising input costs
- Smaller retail margins
- Slowing demand
- Capital projects are being put on hold
- Limited experience in dealing with down markets

Alberta is facing a deficit for the first time in 16 years. The majority of companies have enjoyed the benefits of a booming oil and gas sector and many have never experienced a downturn. As a result, companies are being reactive instead of proactive. They are cutting costs short term but they are still approaching cash flow management with a boom time mentality. This simply doesn't work any more. There are new challenges that require a more rigorous approach to cash flow management and working capital. To develop this new approach, companies need to take a holistic look at their operations that includes all divisions and addresses both the short term and long term needs. The trick is to manage short-term implications of the downturn on finance and preserve the long-term vision.

Cash flow consequences of making decisions without thorough analysis

- Many highly profitable companies have gone out of business due to poor cash flow management not for lack of profitability.
- Cost-cutting measures not based on long-term analysis can result in higher long-term costs—especially during a downturn.
- A failure to thoroughly review all aspects affecting working capital, including existing contracts, leads to unnecessary costs. This is especially true in a downturn. At this stage, every supply contract is up for negotiation.

The challenges within the organization for effective cash flow management

- Management, while expert in their own sector, often do not have insights into other enterprises and sectors and economic climates resulting in a limited capability to find the most comprehensive solutions based on best practices.
- Personal investments, longstanding relationships and internal strategic disagreements often leave management reluctant to make the tough decisions.
- In many cases, managers are in a state of denial about the severity of the problems their company is facing.
- In the case of a Canadian-owned subsidiary of a foreign enterprise, there are compounded complexities and pressures that can make it difficult for a subsidiary's management to impartially convince the foreign-owned parent company that there is a better alternative to exiting Canada.
- Lack of internal communication and holistic analysis means cost reduction is often done ineffectively in silos.

Lack of experience getting through a downturn can be blinding

- Those who have experienced a downturn know it's tough, requires some hard decisions and quick action but they also know what it's like to come out the other side—and how to prepare for it.
- Without this bigger picture view and experience, some managers base cost-cutting on short-term panic rather than long-term strategy and survival. They cut deep and non-strategically for short term-relief and end up putting their long-term goals at risk.
- Others keep their boom-time mentality thinking that cost avoidance in travel and Selling, General & Administrative (SG&A) will be enough, and then find themselves in dire straits, scrambling to conduct major life-saving amputations at the last minute.
- Experience provides a long-term perspective with a keen knowledge of the type of surgical cost-cutting required to succeed through the downturn, the recovery and the subsequent full-swing economy.

How to turn the theory of cash is king into effective practice

- It starts with a meticulous review and analysis of:
 - **Income:** revenue protection and growth, gross profit, cash and cash equivalents, cash forecasting and management and cash optimization.
 - **Cost:** cost of sales, including strategic cost management of raw material, labour, pension expenses and production overhead. operating and general administration expenses, interest and tax expenses, pension costs and current liabilities as well as non-current liabilities.
- All of this requires an in-depth and cross-section knowledge of operations, financial effectiveness, systems and process assurance, technology, business transformation, governance, risk and compliance and related best practices as well as high-quality use of key performance indicators (KPIs).
- The analysis has to go deep and balance the short-term benefits with the long-term consequences and vice-versa.
- Decisions need to be made based on a full and holistic understanding of all the possible implications for long-term inefficiencies and costs. What might appear to be a cost-cutting measure in one part of company could cost an even bigger problem in another.

Benefits of a Strong Cash Flow Strategy

- A strong cash flow strategy helps you understand the value drivers and value destroyers in your business.
- This allows you to take a measured approach to cost reduction that won't rip out the heart of the business to avert crisis in the short term and will continue to drive costs out of the business in the long term.
- It provides you with timely, accurate cash forecasting information that allows you to rationalize and reconcile short, medium and long-term forecasts.
- Good credit control and resolving and servicing queries in a timely and proactive manner can help to cement the customer relationship.
- A strong cash flow strategy will help you work better and work smart with suppliers through the downturn and help build a stronger relationship coming out of it.
- A strong cash flow strategy will help you manage the expectations of the bank, and earn you goodwill should problems arise. Banks/funders don't like surprises.

The PwC advantage: We know how to build value

Value drivers

PwC perspective

A solid understanding of key performance indicators (KPIs).

PwC has extensive experience in helping companies optimize their performance using customized KPI strategies. PwC understands that cost is an investment, not a burden.

"It's time for companies to get specific and establish clear and precise measures, but they have to be the right ones to show how your company is executing against its strategy. Helping companies choose and apply the best performance measurement for them is one of PwC's core strengths," says Kevin Peterson, Vice President, Advisory, PwC Edmonton.

A holistic approach.

PwC looks all the way through the organization starting from sales, the way that they deal with customers, the whole cost structure, through to how supply chain works, and how that relates to the whole systems in reporting finance to the company itself.

"Once we've determined what the optimum operating conditions for a company are, we then will determine what kind of balance sheet we need to support that," says Randy Watt, Associate Partner, Advisory, PwC Calgary.

A detailed plan with action steps to build a solid balance sheet.

PwC brings an understanding of finance, financial discipline and cost management so we have a rigorous approach to help you build a solid balance sheet.

"We know it's all about cash flow. Without it employees can't wait to be paid; your mortgage holder or landlord doesn't care if you will have the money soon. Suppliers will likely not be willing to extend your credit and therefore you will not be able to purchase the goods you need in order to complete your customer orders and receive payment," says Kevin Peterson.

A fresh perspective and broad knowledge of best practices.

PwC can draw on a global team of practitioners with experience of best practice in any industry, type of company and in all areas of business.

"It's easy for companies to rely on a narrow focus but often the best ideas come when you expand your outlook—and helping companies expand their outlook through solid knowledge, experience and innovation is one of our priorities here at PwC," says Randy Watt.

Our team

In Alberta, PwC has assembled a team with global hands-on experience in driving performance improvement through finance and operations transformations for companies around the world. Call one of our practitioners below to talk about how we can help you make change stick.

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