

Introduction to Financial Management in SMEs

Financial statements analysis

► Cash Flow and Working Capital Management

Investment Projects Appraisal

Financing policies in SMEs

# Cash Flow and Working Capital Management

- The concept of (Net) Working Capital. Working Capital as an investment
- The relationship of cash flow management with business processes
- Managing Working Capital flow through the managing of customers, suppliers and production processes

Cash Flow and Working Capital  
Management

# The concept of (Net) Working Capital

# Definition of Net Working Capital

## Short vs long term approach

- NWC is the difference between short term assets and long term assets
- it is employed to value the short term solvency of a firm (liquidity and quick ratios)
- A high level of NWC is good news for the firm

## NCE&NFP approach

- NWC is the difference between trade credits inventory and trade debits (and other operating assets and liabilities)
- It is the part of NCE invested in the “daily” processes of the firm
- A high level of NWC is bad news for the firm

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# The relationship of cash flow management with business processes

# Credit Management



**“There’s an error in my bill. You accidentally sent it to someone who has no money.”**

# Credit Management



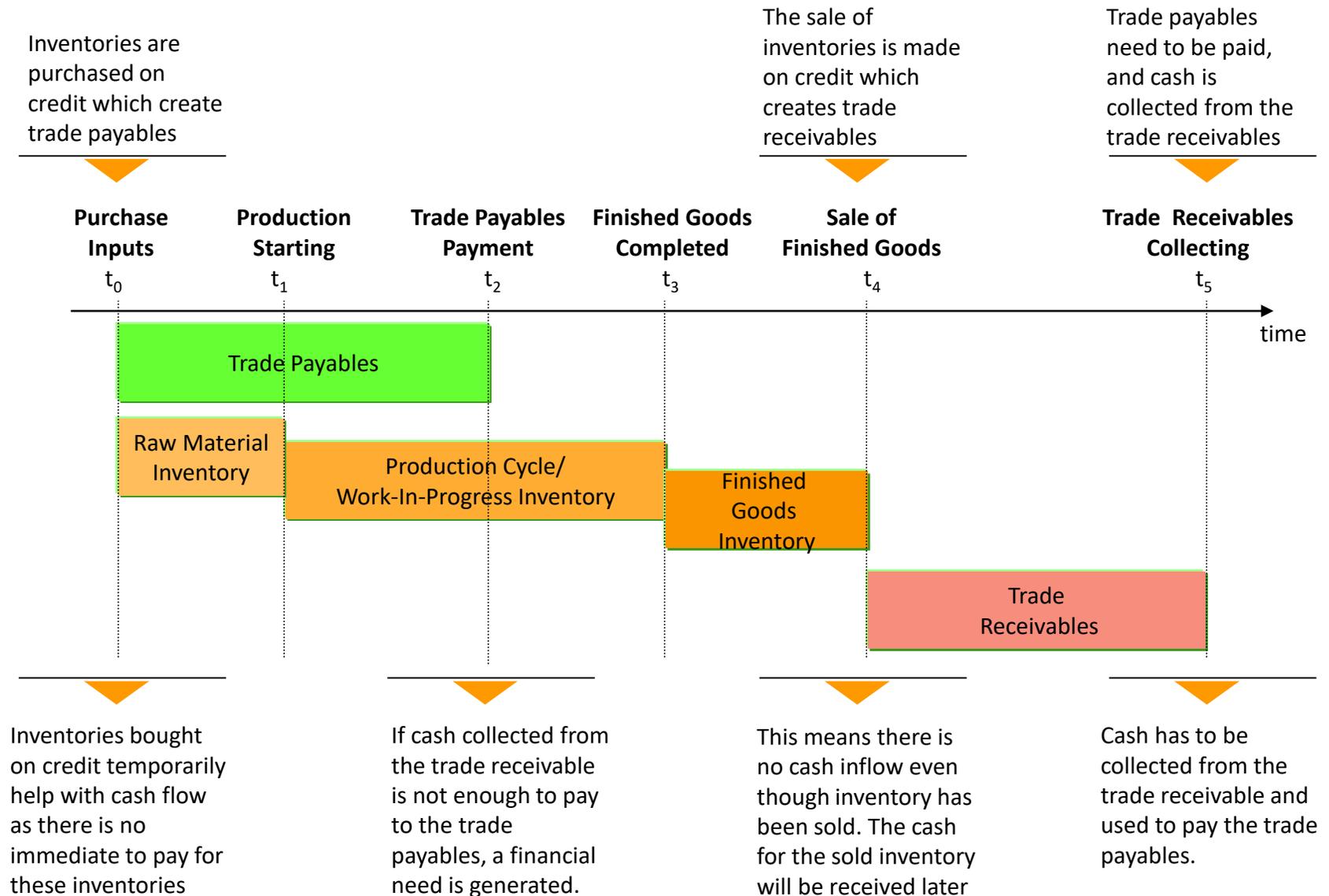
**“If an invoice is due in 30 days, we pay it in 60 days.  
If it’s due in 60 days, we pay it in 90 days. If it’s  
due in 90 days, then they probably don’t  
need the money anyway.”**

# Credit Management

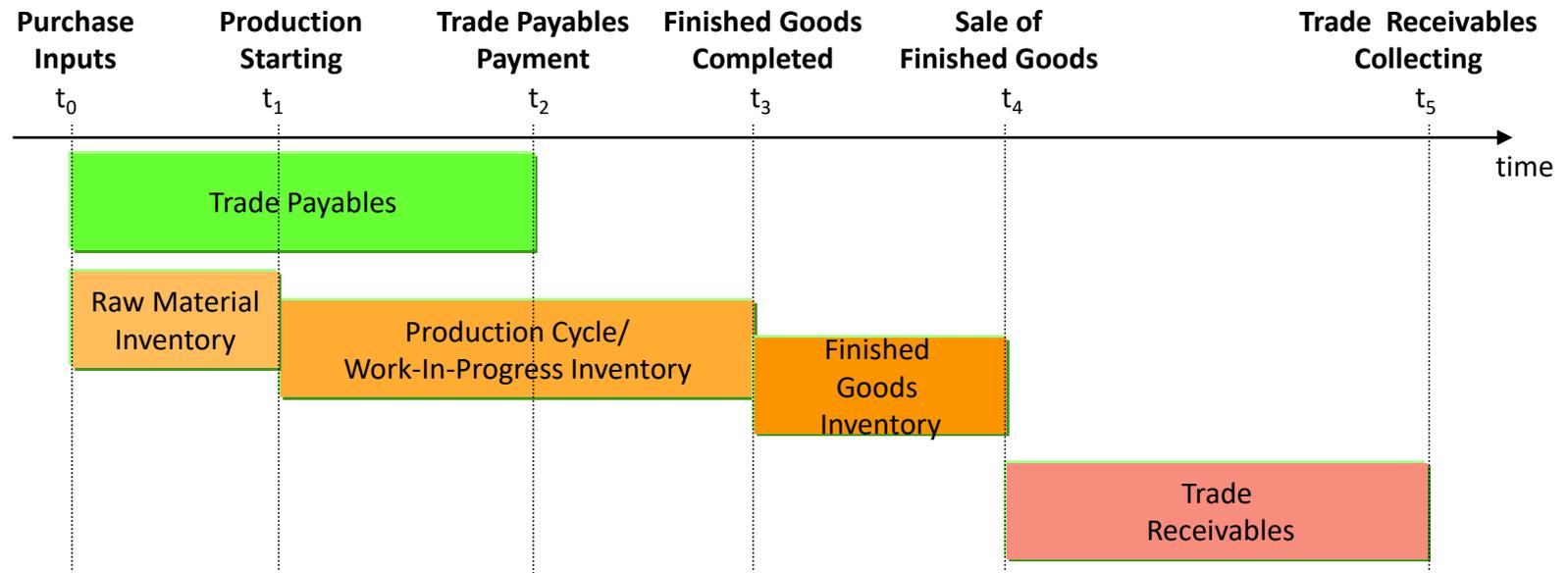


**“Send him our toughest collection letter, threaten him with legal action, and subliminally suggest some type of bodily harm. But put XOXOXO under my signature to show that we still love him as a customer!”**

# Operating cycle components



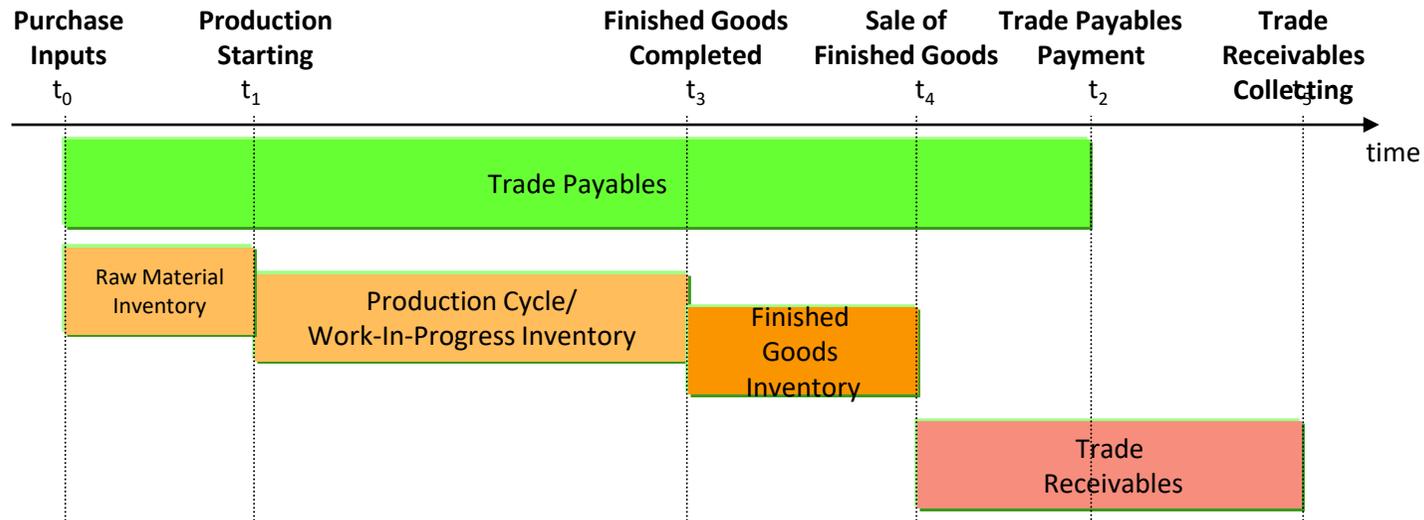
# Operating cycle components



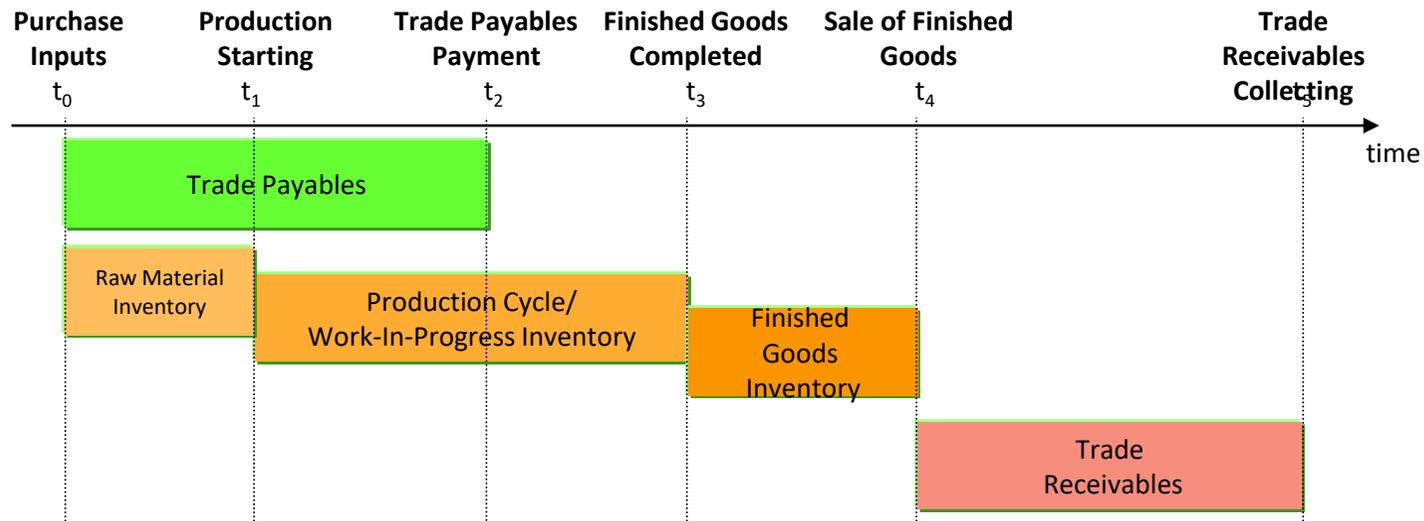
Working capital cycle (in days)	
Raw materials Days In Inventory	$t_1 - t_0$
WIP Days In Inventory	$t_3 - t_1$
Finished Goods Days In Inventory	$t_4 - t_3$
Days of Sales Outstanding	$t_5 - t_4$
Days of Payables Outstanding	$t_2 - t_0$

# Which firm is performing better?

A



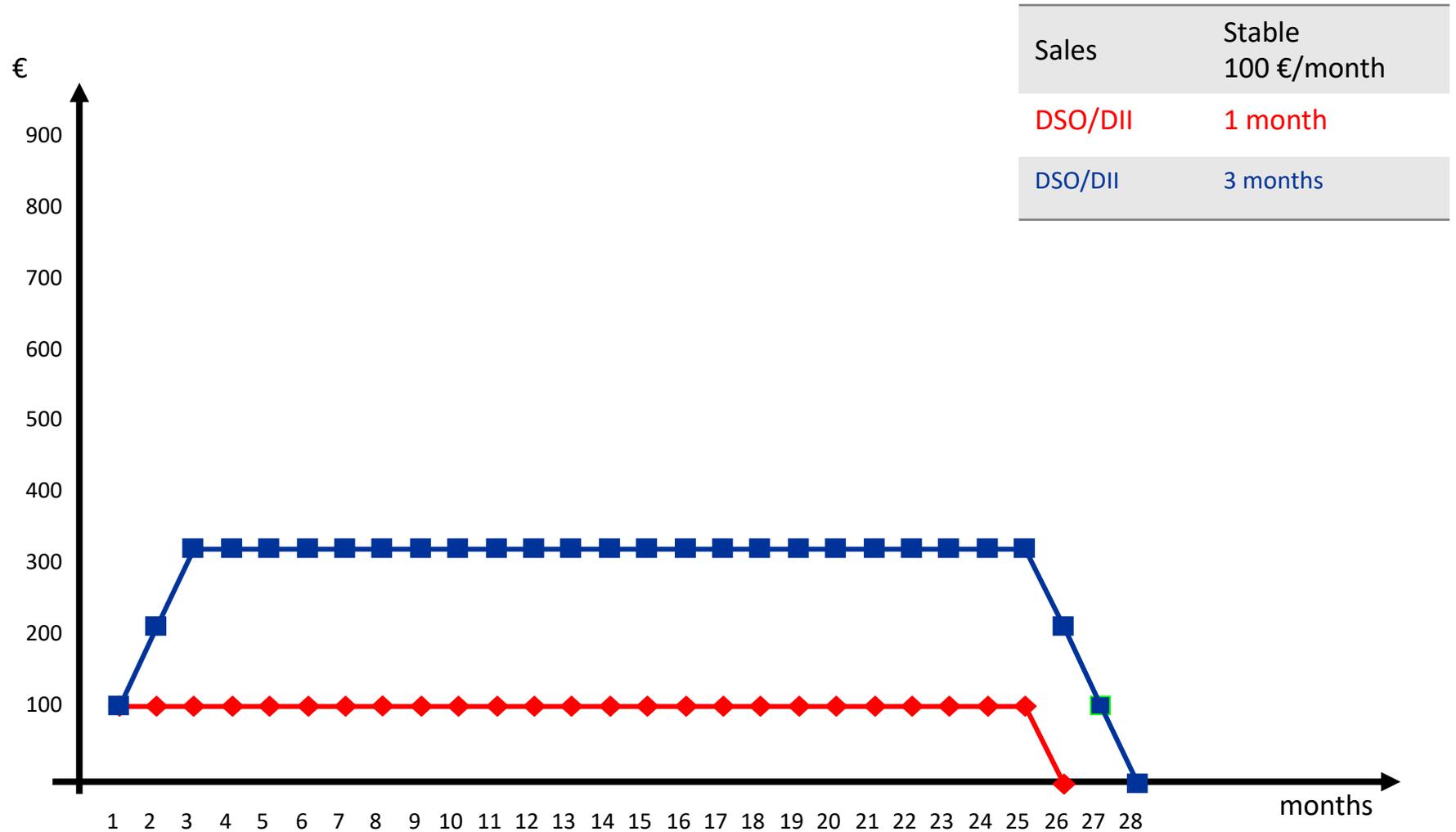
B



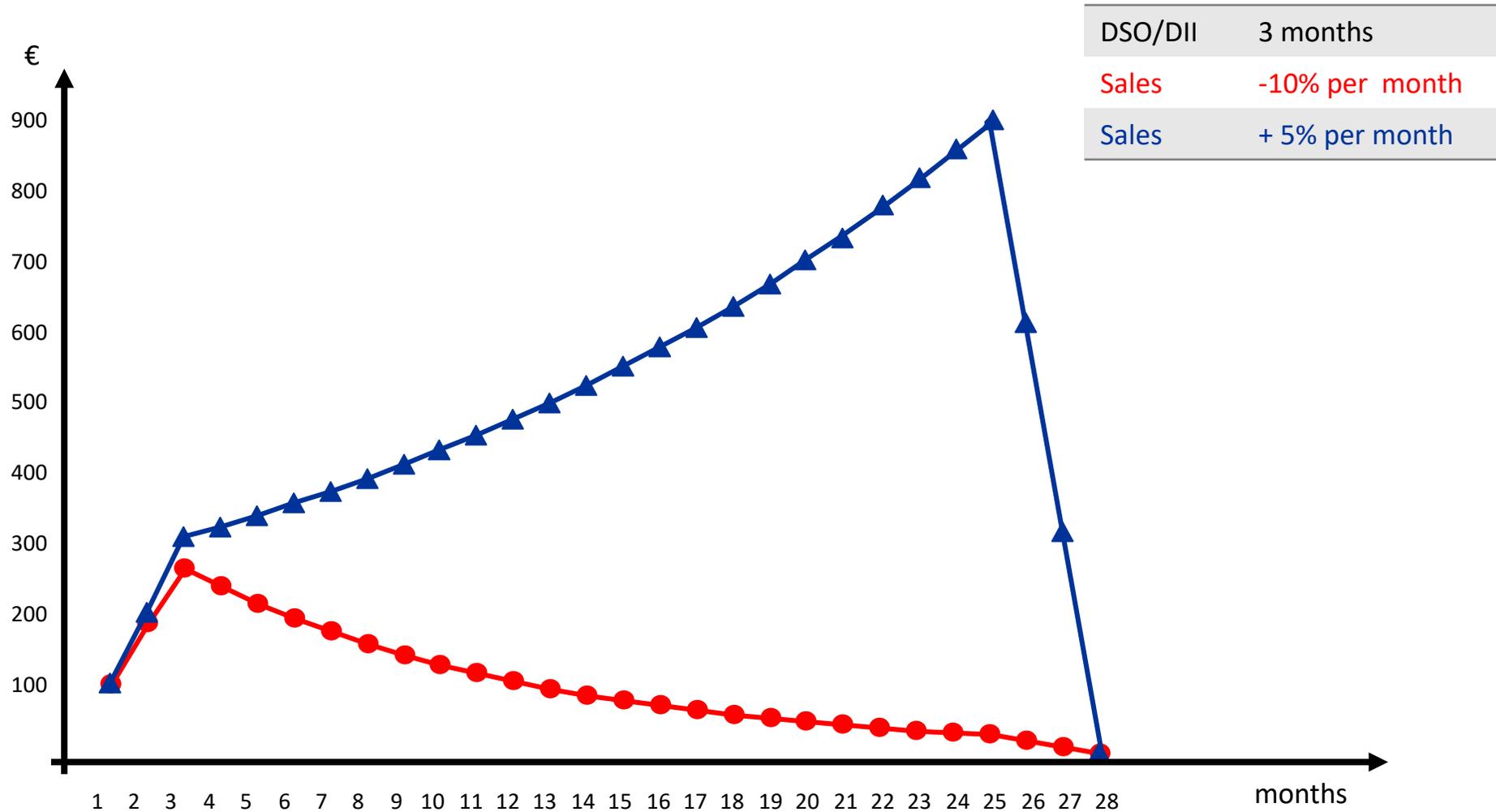
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# Working Capital as an investment

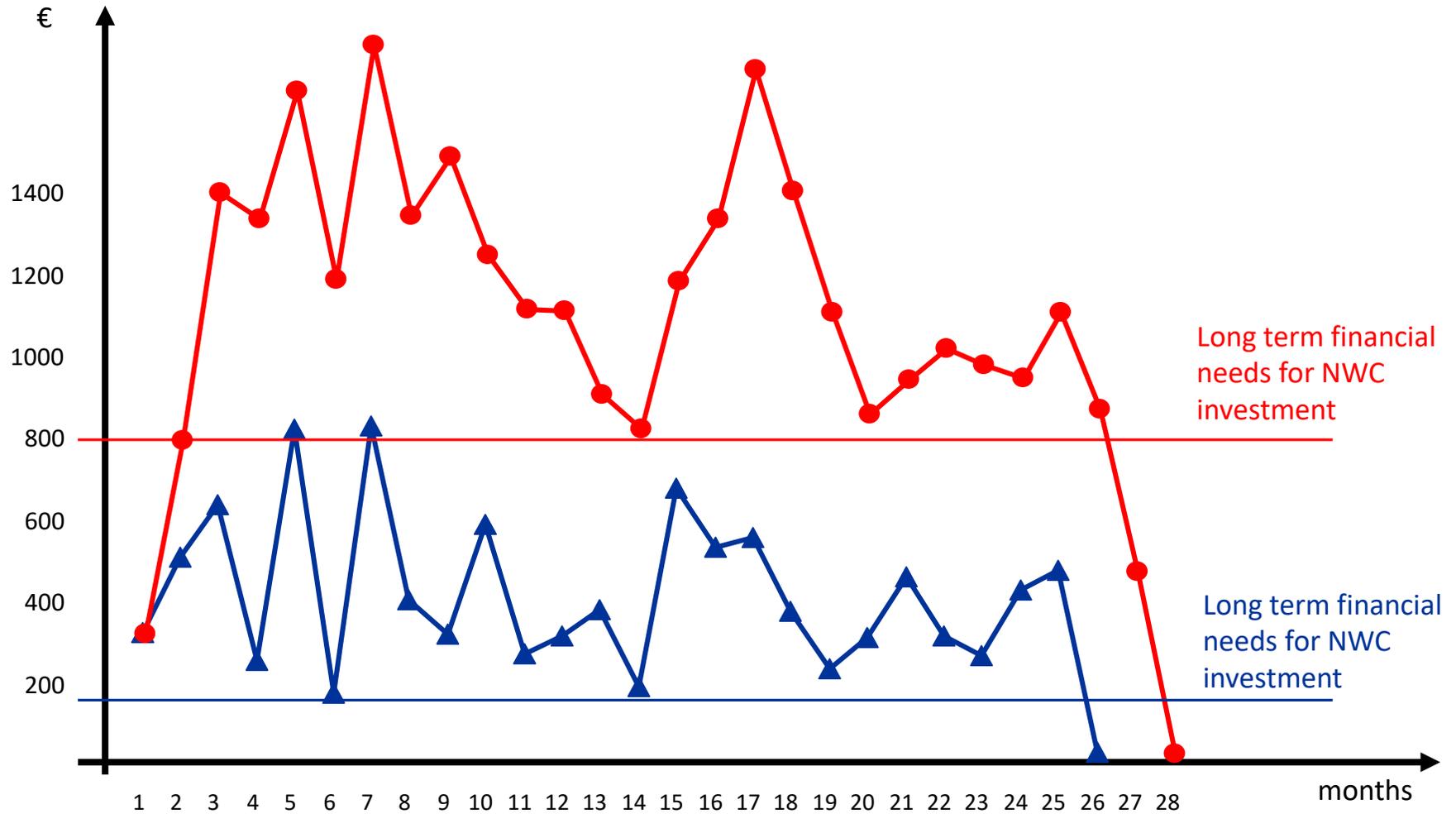
# Net Working Capital and financial needs



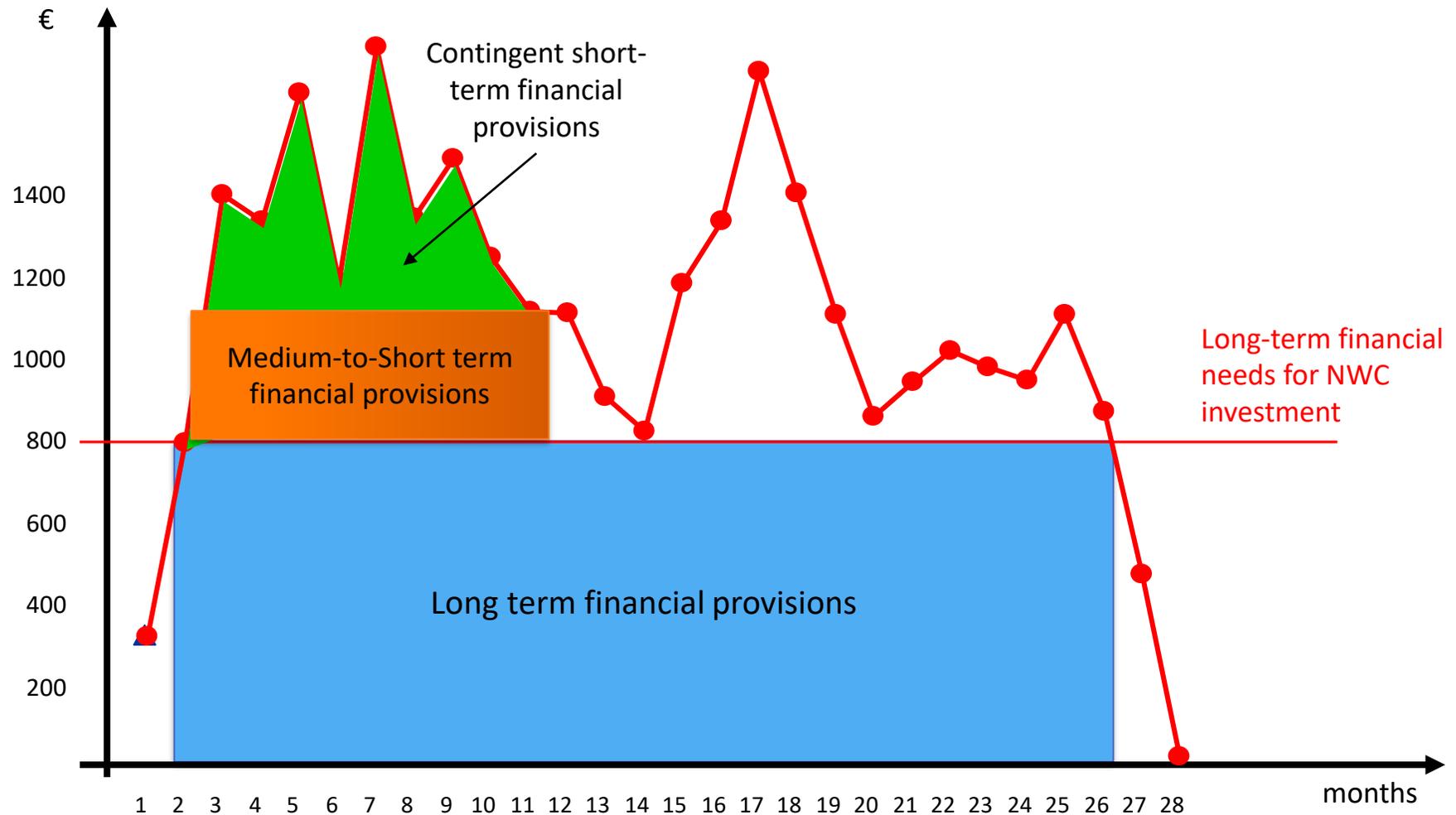
# Net Working Capital and financial needs



# Net Working Capital and financial needs



# Net Working Capital and financial needs



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# Managing Working Capital flow through the managing of customers, suppliers and production processes

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**Managing Working  
Capital flow through the  
managing of customers,  
suppliers and production  
processes**

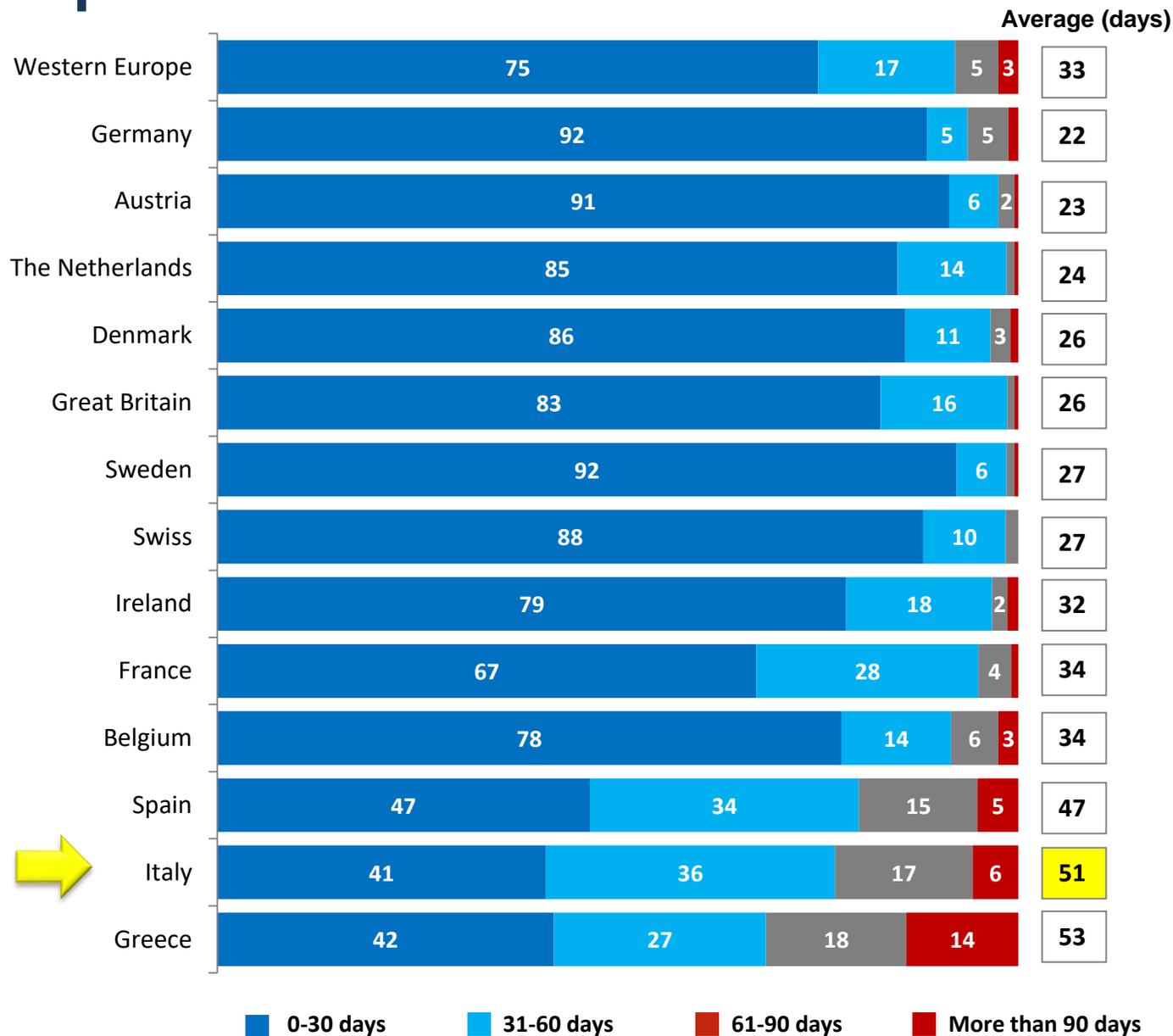
**- Credit management – See  
CS2**

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**Managing Working  
Capital flow through the  
managing of customers,  
suppliers and production  
processes**

**- Managing inventories – See  
CS3**

# Payment practices in 2015



Source: Atradius, Statistical appendix Atradius Payment Practices Barometer, Survey results for Western Europe, Spring 2015