Conclusion and recommendations for cash management

Conclusion

This study evaluated the effect of effective cash management on the performance projection of the First Moving Consumer Goods (FMCGs) for ABC Group companies. In order to execute this process, the study used three distinct companies namely: Yoma Strategic Holdings Company (Real Estate, Agriculture and Automobiles among others), Chue Wing & Co. (Food division) and Oriental Foods Company Limited (Food division). In essence, the study focused on effective manipulation of credit grants on the liquidity and profitability of the companies across four years period between 2011 and 2014. In order to undertake this analysis, the study focused on the financial reports of the companies based on a four years period upon which the three companies performed differently as far as profit making and capital formation processes are concerned. Cash management plays a pivotal role in maintaining and enhancing organizational performance of a company.

The effective management of credit grants has been noted to have a positive correlation with a companys operating profits both in the short-run and in the long-run. The implication of this scenario is that for the companies to enhance ad maximize their profit levels, they should consider granting credits to trustworthy clients only with the appropriate credit controlling mechanism. Similarly, the study also discovered that the credit sales of the companies raise turnovers as well as the profitability through effective implementation of efficient credit policy of the firm. The firms operation costs are very important to manipulate the expected cash flows or the capital formation capacity of a company. The liquidity of a company is very important to maintain the day to day business activities of the business.

Besides, there has been a noteworthy relationship between a companys liquidity position and its overall debtors turnover in the first moving consumer goods of the ABC Group of companies. The implication of this scenario is that the adoption of a favorable debtors turnover may result into realization of a favorable position of liquidity in a company. High debtors turnover also has a positive relationship with the companys ability to yield satisfaction of its creditors. Effective debtors collection policy may therefore mitigate problems associated with cash flows of a company and the overall liquidity outlay. For instance, effective credit policies of the three firms could be associated with enhanced working capital that is manifested through their financial ratios and liquid assets that are essential for promoting growth of a companys business portfolio. Positive relationship between debtors turnover and the liquidity of the businesses also signified that increase in debtors turnover results into increase in liquidity position.

Recommendations

In order for the companies to enhance their capital formation process and continue performing well in the industries they operates, a number of internal structures must be strengthened to promote their competence in the entire business segments. In particular, the companies must maintain sufficient liquid assets as well as eliminating losses from bad debts among other related costs of accruing credits. Similarly, the companies must enhance their efforts to manipulate services from the factoring agents. This mechanism is critical in mitigating incidences of bad debts that are responsible for ditching companies into a financial pit.

Besides, this process would also be ideal in promoting the prospects of reducing costs associated with debts. Besides, it is important for the companies to promote their credit sales towards trustworthy clients in isolation although credit sales are considered a marketing tool for the maintenance of sales or the enhancing expired sales. In order to remain competitive in their respective markets of operations, the companies must also monitor adjust and review their credit policies frequently in line with their business traits and mission. For instance, the Board of Directors of each company may restructure credit risk management portfolio through the delegation of the task to the credit committee.

Similarly, the credit departments that is answerable to the credit committee also oversees the credit risk of the entire Group should form a pact partnership with the individual companys credit risk management taskforce in order to align their goals to the entire Groups mission and objectives. In essence, the companies should establish credit policies in line with the business units comprising of collateral requirements, risk grading mechanism and reporting among others aspects of development including statutory and regulatory requirements. In addition, the companies should develop authorization structure of approval as well as the renewal of their credit facilities. Authorization limits were also allocated to credit officers of the business units.

The management of the Group has also been assessing its credit quality of all counterparty while considering its financial position and accrued experience over time. Although the performance of the companies has been prevalently good during the four years study period, the credit risks arising

from other entities, government securities, corporate bonds and its balances in the central banks of their host countries is very minimal due to the fact that their counterparties are government entities, counterparties and other companies with relatively high credit ratings. This implies that the group must progressively monitor and enhance its credit policy against their regional competitors in order to increase their competence against other competing firms in their sectors of operations as far as fast moving consumer goods are concerned.

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