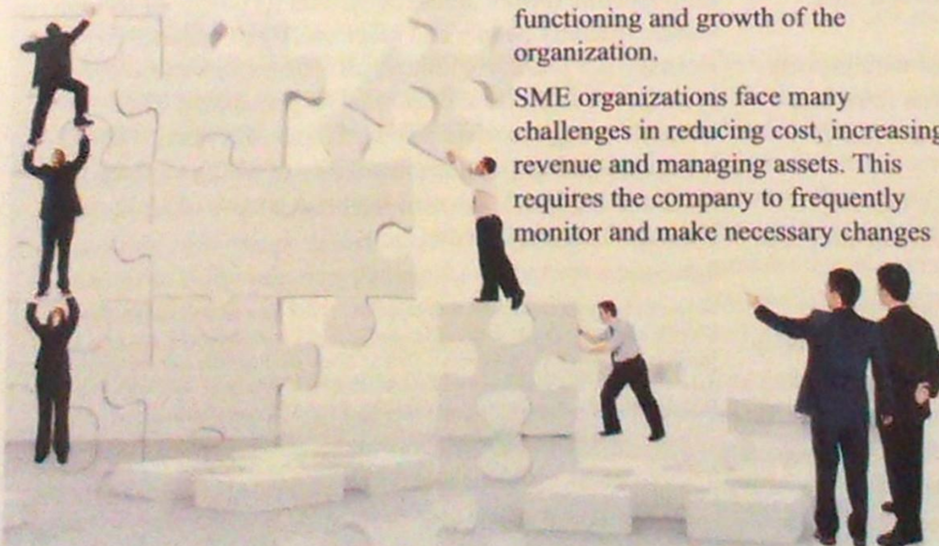
Pratibha Sharma

An organisation to run efficiently, overcome the hurdles and grow, needs to ensure there is a right balance between the objectives set and the investment or the funds required to meet them. The Restructuring process starts with redefining the core business and exploring the competence of the company. Re-structuring is predominantly based on the two pillars of growth: Revenue, and Cost. They are the most crucial elements of any business and it is with the proper structuring of these elements that the success of a business could be judged. These functions determine the functioning and growth of the organization.

Financial Restructuring of SMEs

SMEs are backbone of Indian economy. They contribute around 45% of industrial output, about 40% of exports and employ more than 60 million people. Across verticals, SME are worried a lot as the payments are getting delayed, customer confidence is slowing down and cost of doing business is moving northwards. With customer gains becoming far and few many companies worried about growth and profitability. Because of the limited access to capital and other constraints, SME are the worst hit in any economic downturn. SME business face unique set of challenges and problems. SME face many challenges including: absence of adequate and timely banking finance, limited capital, low production capacity, constraints in modernizations etc. From financial management perspective, absence of clear financial policies, limited use of capital budgeting, risk management and working capital management techniques and shirt-term emphasis rather than long term business sustainability hurt many a SME. In this article, we discuss how to approach financial management in general and business sustainability strategies for long-term. Financial management involves all the activities from acquisition, allocation, and maximize returns from the investments.

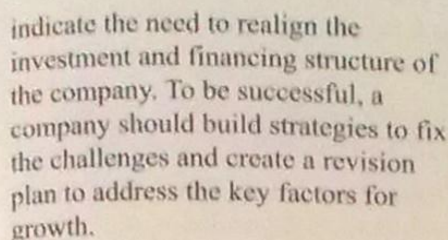


An organisation to run efficiently, overcome the hurdles and grow, needs to ensure there is a right balance between the objectives set and the investment or the funds required to meet them. The Restructuring process starts with redefining the core business and exploring the competence of the company. Re-structuring is predominantly based on the two pillars of growth: Revenue, and Cost. They are the most crucial elements of any business and it is with the proper structuring of these elements that the success of a business could be judged. These functions determine the functioning and growth of the organization.

SME organizations face many challenges in reducing cost, increasing revenue and managing assets. This requires the company to frequently monitor and make necessary changes to re-align and ensure smooth functioning of the organizational activities and long term sustainability. An organization is built with an intention to generate revenue, maximise profits and market share and be a long term player in the market. Profit maximisation is the ultimate goal of an organization. By determining the best price and output level that returns the greatest profit, companies prepare themselves for stability and expansion. These companies adjust influential factors such as cost, price and output level as a way of reaching the profit goal. Restructuring the organizational elements of cost, revenue and profits would enable the organization to drastically alter the quality and quantum of its future cash flow streams and also attain the organizational objectives for the future. Companies need to restructure finances broadly when:

- There has been a rapid increase in fixed asset financing through debts
- There has been a decline in the return on capital employed
- There has been an increase in financial fragility.
- Cost disadvantages due to diversification strategies
- Insufficient future funding or inability to pay debts. Also an imbalance in the debt-equity structure.
- Inappropriate debt structure-long term and short term.

All the above mentioned symptoms



indicate the need to realign the investment and financing structure of the company. To be successful, a company should build strategies to fix the challenges and create a revision plan to address the key factors for growth.

Cost: Every organization strives for operational efficiency and maximum utilization of resources. The companies target is to bring out the best products/solutions/services at a less cost and a price which would help gain market share and increased profit margins. Cost containment strategies are widely adopted to ensure organisations meet their financial targets. Determining how to cut costs without disturbing the company's ability to generate future revenues and survive over the long term is a challenging issue.

Eliminate Consolidate and Outsource: In an aim to grow, companies often expand without deep consideration of cost and other disadvantages. Restructuring these business units/products by consolidating the activities or eliminating the underperforming units/products is a strategic decision taken by the management to minimise the expenses and have a clear focus on the growing market. Some companies where the resource is overstaffed or there is duplication of work could be evaluated and eliminated to reduce inefficiencies and increase productivity, clarity in activities and reduction of cost.

At times, expansion can result in realizing economics of scale. Check for the quantum of proportional increase in fixed costs before proceeding with this strategy. Diversification is also a strategy to improve revenue growth, a best option to pursue id it can balance business seasonality. Joint ventures or resource pooling contracts can also be an option to revenue growth by cutting expansion costs in manufacturing, purchasing or distribution. This strategy works best when the fixed overhead expenses are high for each business.

Cost reduction could also be done through closure of business units which are not generating income and result in high overheads. The units where the product has been obsolete and technological developments have given rise to newer products in the market could be shut down to give way for research and development costs for new products and technologies. Many companies benefit from outsourcing activities like HR, procurement etc. The companies gain from significant savings and better market information. The cost and efforts of doing the activity internally could be compared with outsourcing these activities to arrive at a cost effective method. Activities and expenditure which add value or are a means of generating revenue need to be evaluated, the impact should be assessed. Companies can reduce these costs by either reducing the number of transactions or by reducing the cost per transaction. Improvements in technology and processes could also minimise transaction costs.

There is a pressing need for organizations to focus on managing both components of working capital, current assets and current liabilities. Maintaining a positive working capital is necessary to ensure that an organization is able to manage its operations and has sufficient funds to meet its short term obligations and future operating expenses. Working capital management comprises of management of inventory, account receivable and account payable and cash flows. Efficiently managing these components enables the companies to make effective short term decisions.

Cost of capital is an areas unevaluated by SME's. Many of them use standard bank borrowings including overdraft and other facilities and do not take a comprehensive view of the finances. An area SME can easily address the cost management is cost of capital. Many SME do not explore sufficiently the benign schemes including Credit Guarantee Scheme for MSME (CGSTME). Equity based schemes offered by SIDBI is an excellent opportunity for SME's that want to reduce debt burden.

To measure cost, the ratio commonly used to understand the impact on revenue would be **Expenses or Cost/Net Sales *100.** This ratio could be individually calculated to the line items in the expenses to assess the percentage of revenue that is being utilised for these expenses. Accordingly the management can plan to control activities which have least or no impact on revenue.

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To measure the how efficiently the working capital is being used to generate sales:

Working Capital Turnover ratio: Sales/Working Capital. This ratio indicates the company's ability to grow, expand and take advantage of

To reduce costs and increase efficiency, it becomes essential to centralise and consolidate similar activities in one location. Companies can create distinct cost and profit centers to align the activities. Cost centers could be created which are a part of the organization that do that directly contribute to profit like research and development, marketing etc.

opportunities. The higher the ratio the better is the performance.

Inventory management: Maintaining the right quantity of inventory at the optimum level so that the production is not effected and at the same time funds are not blocked in additional raw materials is a decision to be taken to manage the working capital and preserve the liquidity position of the company. Some companies adopt the Just in Time System (JIT) to reduce in process inventory and associated costs. Calculating what is known as buffer stock is also key to inventory management. The three key aspects of inventory management is the time taken by the supplier to process an order and deliver, the inventory being used for production and the number of units to be ordered for the production to run smoothly.

To measure the pace at which the inventory is sold:

Inventory Turnover ratio: Cost of Goods Sold/Inventory. The faster the inventory is sold the more profitable the company will be

Receivables management: Accounts receivables constitute a significant portion of the total currents assets of the business next after inventories. Companies can sell goods in both credit and cash. These companies extend the credit period due to factors like competition; profit gain, customer convenience etc. When selling in credit the organizations need to consider the credit rating of the customer and reduce the credit period. Companies are always at a risk of default ultimately leading to bad debts and loss for the company. Due to this companies have to bear the cost of default, opportunity cost of the funds being blocked, collection costs and capital cost. Organisations have to ensure the credit period to any given customer is provided to the extent it does not affect the cost of the business and cash discounts are provided to customers to make payments faster. Dynamic receivables management give you effective control over your accounts receivable.

To run a business successfully, one requires to effectively manage man machine and money. With sufficient cash a business has the ability to buy almost any of the other resources in which it may be deficient. Therefore cash management plays a very important role in the smooth functioning of an entity.

To measure the receivable cycle in a business, the Accounts receivable ratio indicates the duration taken to receive payments from debtors.

Accounts Receivable Turnover: Credit Sales/Accounts Receivable * 365

Payables Management: Companies need to improve their control over expenses. As the production and sales increases, the liabilities on purchase, wages etc also increase. Accounts payable are a major source of short term financing to firms. With proper controls, and scheduled payments, the companies can avail supplier discounts which would lower purchasing costs.

To measure the pace at which the payments are being made to the creditors,

Payments Turnover ratio: Purchases/ Accounts Payable*365

Cash Management: To run a business successfully, one requires to effectively manage man machine and money. With sufficient cash a business has the ability to buy almost any of the other resources in which it may be deficient. Therefore cash management plays a very important role in the smooth functioning of an entity. Forecasting the future requirements and available funds and efficiently managing day to day operations minimises the cash required to maintain and grow activities. Selection of appropriate investment avenues that will result in positive and incremental cash flow for the business is essential for long term.

To measure the company's ability to meet its short term obligations,

Operating Cash Flow ratio: Cash Flow from Operations/Current Liabilities.

If the operating cash flow is less than 1 then it indicates that the company is not generating enough funds to clear its short term debts.

The liquidity ratios such as the current ratio and acid test ratios are also good indicators of a company's liquidity position and the capabilities of the organization to meet short term commitments

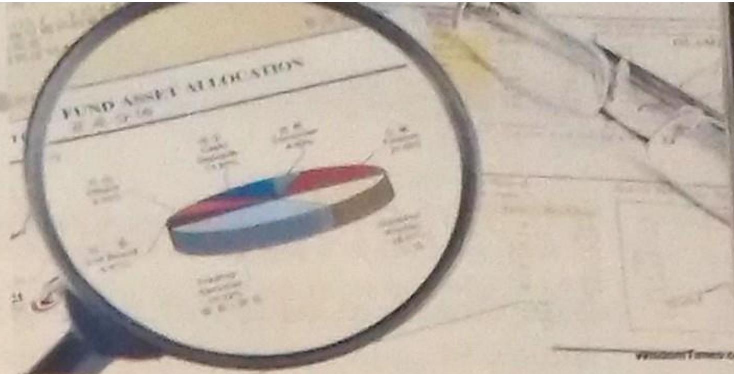
Debt Restructuring: Debt management is another aspect dealing with long term obligations of the enterprise. Companies often face difficulties in fulfilling their financial obligations. High interest costs and downturn in economies makes it difficult for companies to bear the rising costs and uncertainties of the future. Companies with cyclical revenue and predictable markets opt for external funding to meet their financial requirements whereas it is advisable for companies with unpredictable revenue and markets to go with internal financing and equity. Therefore altering the terms of the debt agreements to achieve cost advantage or the debt equity structure would be beneficial for companies in reducing insecurity and maintaining a balanced structure.

To measure the proportion of shareholder's equity to debt:

Debt Equity ratio: External Debt/Equity.

This ratio indicates the financial leverage of the company. This is a key ratio to judge the company's financial standing. When examining the financial position of a company, it is important to assess the debt equity ratio. The more the ratio, the company is highly financed by external debt. Investors and banks prefer a low debt equity ratio because their interests are protected during a downfall or closure of the business.

The profit margins of a company are good indicators of the performance of the company during a particular period and also signify efficient utilization of resources.



Revenue: The goal of every business is to generate a sustainable and superior ROI (return on Investment). The return if the benefit derived for risking the money in the business. The art of selling a product/service and valuing it to attain the desired returns is essential for each business to sustain, grow and serve the objective of operating the business. The management of revenue initiates the preparation of short term and long term business plans. These plans entail the strategies to forecast demand, explore market segments, minimise costs and price the product which would yield maximum profit to the organization.

The profit margins of a company are good indicators of the performance of the company during a particular period and also signify efficient utilization of resources. Companies strive to minimise costs, increase revenue and therefore greater profit margins.

Return on Investment: This is a measure to understand the benefit derived out of the investment made and the cost incurred during a particular period. This measure would help the company decide whether the company has made the right investment and would it be profitable to proceed.

Pricing for a product could be arrived at considering the cost, customer, competitors or market. Each pricing method needs to meet the objective of earning profit and bring out the value of the product.

Pricing-Versioning: Apart from pricing the product according to the traditional method of target, profit margin and competitor's price, today companies are also looking at having different versions of the same product to cater to the unique requirements of different sets of customers. The businesses can have a premium version with added features, a basic version with limited features and a economy version with required features. Versioning attracts new customers and derives different profit margins for different customers. Advantage of this pricing methodology is catering to unique requirements of various segments of customers and letting the customers choose how much to pay.

Bundling of Services: The products/ services could be placed together in a single package and sold at a price lesser than the price of buying them separately. The customers have an option to buy it at a bundled price or buy the product/ service separately at a slightly higher price. This pricing method helps achieve increased sales, economic efficiency and better profits. The businesses should carefully analyse the revenue and profit projections for both bundled and unbundled options when determining the price. Tracking bundling performance and customer satisfaction helps ensure long-term benefits to the business.

Cost and Profit Center: To reduce costs and increase efficiency, it becomes essential to centralise and consolidate similar activities in one location. Companies can create distinct cost and profit centers to align the activities. Cost centers could be created which are a part of the organization that do that directly contribute to profit like research and development, marketing etc. This helps the companies to measure cost effectively for activities and their impact on revenue. Likewise profit centers are created to measure the performance of a part of the organization. These are structures created by organizations to effectively track revenue and performance for each product/ service offered.

Conclusion:

Successfully managing financial resources is important in new and expanding businesses, so take time to develop and implement a financial plan that will ensure the success of your business. For SME to grow and prosper, accounting and book keeping functions need to evolve into a management function. Understand the importance of planning, implementing and controlling activities to manage funds and grow.

- **Define a process**: Identifying the activities, tasks and creating a sequence of those activities to effectively manage operations and result in predictable outcomes is essential for every business to have clarity in the functioning of the business and achievement of objectives. A definite process in place is necessary to feed the right type of information for effective decision making and organizational performance.
- **Roles and Responsibilities**: Outlining the roles and responsibilities of each of the member to make them accountable and responsible for the activities and own the performance of the business.
- **Long Term planning**: Organizations need to constantly review the performances, compare with the previous year' results and make decisions to mitigate risks and achieve the goals set. Clear and strategic planning helps companies to foresee challenges, have alternate action plans and sufficient funds available for long term and short term financial needs.

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Pratibha Sharma is Sr Asst. Consultant (Strategy and Finance group), Browne & Mohan