

A VBS SOFTWARE CONTRIBUTED ARTICLE, AS SEEN IN AVNET TECHNOLOGY SOLUTIONS' ENVOY NEWSLETTER, 2/25/09

Focus on the Balance Sheet Can Help You Through the Recession

Cash is king in VAR businesses. While you look to the P&L for revenue, expense and profit, free cash flow is what keeps the business running – to pay expenses, make investments and take home the profits generated. In difficult economic conditions, visibility into the balance sheet and extra scrutiny on some business processes can help you better manage your cash flow.

Billing. Many VARs only bill once or twice a month and most also offer terms. This could cause cash to be tied up for 60 days or more. Additionally, professional services are often not billed promptly, either because of poorly negotiated contracts or because of inaccurate and manual time and expense accounting.

Purchase order and invoice reconciliation. The sheer volume of quote revisions and the manual processes associated with order management can make discrepancies the rule rather than the exception. Many VARs have back-office staff that spends inordinate amounts of time producing accurate invoices for their customers or reconciling disputes.

Accounts receivable and payable. These are the largest accounts in VAR businesses and they need to be managed tightly. Ours is one of the few industries in which the smallest company in the supply chain (the VAR) extends credit terms to companies that are much larger than they are (the customer).

Best-practice VARs employ some or all of these methods:

- Keep A/R and A/P accounts roughly even at between 30 and 45 days,
- Invoice customers upon ship notification and receipt of serial numbers,
- Negotiate professional services contracts that include milestone billings,
- Eliminate invoice discrepancies.

Management Systems Provide Control

Implementing processes in your business to manage cash flow is critical. An ERP system can provide visibility into your balance sheet to illuminate problem areas. Avnet has credit programs, such as RSA, that are designed to help with your accounts receivable. Avnet also has integration capabilities with VBS Software, which allows you to:

- Receive automatic ship notifications, including serial numbers, for real-time customer billing and faster days to cash.
- Eliminate manual reconciliation of purchase orders and invoices, giving your customers timely and accurate invoices to expedite payment.

Top-performing companies use processes and systems to manage their balance sheet, so as they grow revenue and gross profit, they also accelerate free cash flow.