Whitepaper: Best Practices for Cash Flow Management in Egypt, Saudi Arabia, and UAE

Target Audience: Business Owners in Egypt, Saudi Arabia, and UAE
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Introduction

Cash flow management is the lifeblood of any business, especially in markets such as Egypt, Saudi Arabia, and the UAE, where economic volatility and reliance on personal relationships significantly impact performance. Effective management of accounts receivable, payables, inventory, and cash ensures that businesses remain financially resilient, even during challenging periods.

This whitepaper delves into practical strategies for maintaining healthy cash flow and overcoming market-specific challenges. Drawing from real-life examples and my 22 years of experience as a CFO, I will provide insights tailored to business owners in these dynamic economies.

Understanding the Dynamics of the Middle Eastern Market

The Role of Personal Relationships

In Egypt, as well as other countries in the Middle East, business dealings often hinge on the strength of personal relationships. Trust, reputation, and personal rapport frequently supersede purely transactional relationships. For example, in Saudi Arabia, a construction materials supplier may extend 60-day payment terms to a long-standing client because of their established relationship, even though the standard term is 30 days.

These dynamics can be both advantageous and challenging, depending on how well a business owner manages relationships. Fostering solid relationships with clients, suppliers, and financial institutions can help secure favorable terms and expedite cash flow cycles.

Navigating Economic Challenges

The Middle Eastern economies, particularly in Egypt, Saudi Arabia, and the UAE, face unique challenges such as fluctuating oil prices, currency risks (in Egypt), and evolving regulations. Business owners must integrate cash flow management practices that account for these factors.

For example, a retail business in Egypt may experience sudden increases in import costs due to currency devaluation. Maintaining a cash buffer (whenever possible), combined with swift action on receivables and payables, can help mitigate the impact.

Accounts Receivable Management: The Cornerstone of Cash Flow

Accounts receivable (AR) is a significant element of cash flow management. Poorly managed AR can lead to cash flow crises, even in profitable businesses. During my years of experience, it is clear and evident that business leaders who thoroughly and rigorously don't compromise on collection, will have way higher performance on AR management compared to business owners who focus on other parts of the business more than working capital management.

1. Client Profiling and Segmentation

During my work at Bayer we had a system of profiling clients into high, medium, and low-risk categories based on past payment behavior, creditworthiness, number of years in the market, and other criteria weighted and factored by importance and impact. High-risk clients were required to make partial payments upfront, while low-risk clients received extended credit terms.

- **Real-Life Example:** An IT services provider in Dubai segmented their clients by industry and payment history. Government clients were categorized as low-risk but tended to delay payments. To maintain positive cash flow, the provider required partial upfront payments – if possible – or get project financing to smooth out cash flow fluctuations, before initiating any significant government contracts.

2. Negotiating Favorable Payment Terms

In Egypt, where cash flow delays are common due to market behavious and unnecessary lengthened processes, some industries, or companies within specific industries request upfront partial or full payments, or use form of guarantee, like LGs. The market in some months of the year turn to cash market, meaning no credit at all, otherwise prices may fluctuate according to currency fluctuatinos as well.

3. Proactive Follow-Up

A trading company in Saudi Arabia realized that automated payment reminders were often ignored by their clients. To tackle this, the company established a protocol where account managers personally called or visited clients 10 days before the payment was due. This proactive approach resulted in a 20% reduction in late payments.

- **Real-Life Example:** A Saudi-based trading company specializing in electronics designated specific account managers to build relationships with key clients. These managers made in-person visits and calls, leading to quicker payments and fewer overdue accounts. They followed a system of dunning, that contained 6 stages, starting from calls, messaging, sending written communication, visits, and in some cases seize supply until payments is received.

4. Incentivizing Early Payments

A common practice in USA is to provide a 2% discount for early payments within 10 days of invoicing. This incentive if used properly will encourage quicker collections, particularly from small and mid-sized clients who valued the cost savings, but it has to be used wisely, otherwise incentivise further discounts.

Accounts Payable Management: Extending Cash Flow

Managing accounts payable (AP) effectively is critical for extending your cash flow runway without damaging supplier relationships. You see here we do exactly the opposite of AR management, here we try to extend our payment terms to vendors. Approaching AP requires strategic thinking, and not trying to be the smartest guy in the room. Honesty, care, and building long lasting relationships, is the only way you can extend payment, and get good pricing as well.

1. Supplier Relationship Management

An Egyptian textile company, after developing strong relationships with key suppliers, negotiated a flexible payment plan where they could extend payments by an additional 15 days during periods of lower cash flow. In return, they committed to placing larger orders during their peak season.

2. Implementing Just-in-Time Payment Strategies

Again, away from the shiny name of this approach, it is also dependent on your relationship with your supplier, your fulfillment of commitments, and business they can build with you. This will allow you to simply store your stock at their premises, and receive only what you need, when you need it, and that's the essence of Just-in-time methodology. We in the arab world are more into personalized relationships, and not yet systematic, where systems are linked together, and auto-ordering is in place, especially for family businesses. So it's possible to apply this method if your relationship with your supplier is strong.

3. Optimizing Payment Schedules

An Egyptian pharmaceutical company categorized suppliers based on criticality and negotiated with non-essential suppliers to delay payments by up to 60 days while paying critical suppliers within 30 days. This method kept the supply chain running without disruptions. The same also applied to group of lab and scan services chain in Egypt, who have already select suppliers for main items needed for running their business, while the rest are negotiated beyond 60 days even.

4. Consolidating Supplier Agreements

During my work in group of hospitals, we consolidated our suppliers for the number of hospitals into few suppliers, so our order is bigger, and delivery is centralized. This approach gave us greater bargaining power, leading to longer payment terms and bulk purchasing discounts, which freed up significant cash. Those tactics now are quite old, and nothing new, it just needs implementation, and follow up.

Inventory Management: Reducing the Cash Trap

Inventory ties up cash that could otherwise be used to fund operations, so optimizing inventory levels is critical to healthy cash flow.

1. Implementing Lean Inventory Practices

Since inventory tied up cash, made our working capital negative, I had to reduce investment in invetory in one of the group of hospitals I was managing before, we made stock from essential and fast moving items for sure, however reduced the rest. This alone freed up cash and reduced our overdraft by 30%.

2. Building Relationships with Key Suppliers

Another way is to stock on consignemnt, so you only pay against what was sold from consigned goods. Suppliers at the end of each month, they get stock count from you, based on that they invoice what was sold only. An industrial equipment distributor in Saudi Arabia worked closely with key suppliers to negotiate consignment agreements. This reduced the burden of holding large amounts of inventory, allowing the company to use the saved cash to expand its product lines.

3. Utilizing Inventory Turnover Ratios

An Egyptian apparel retailer closely monitored their inventory turnover ratios and discovered that certain lines of products were moving much slower than others. By focusing on high-turnover items, they were able to increase sales while reducing cash tied up in slow-moving inventory. Every ERP should provide such metrics to enable managers take the right decision.

Cash Flow Forecasting: Staying Ahead of the Curve

Maintaining accurate cash flow forecasts is essential for anticipating cash shortfalls and planning for future growth.

1. Dynamic Cash Flow Forecasting

Maining view of 7-30-90 days in advance is quite important. Weekly view, monthly view, and quarterly view of forecasted cash flow will provide clear trends in cash flow and when it needs smoothing out. A construction company in Egypt, dealing with long payment cycles, adopted dynamic cash flow forecasting that accounted for delays in project payments. They created multiple cash flow scenarios to prepare for potential delays and cash shortages.

2. Stress Testing Cash Flow

Scenario planing, is another form of anticipating future events, and prepare actions ahead of the curve. A retail company in Riyadh prepared for market fluctuations by running stress tests on their cash flow. They modeled worst-case scenarios, including a 30% drop in sales and a 20% increase in operating costs. This enabled them to develop a contingency plan that included reducing non-essential expenses and applying for a revolving credit line.

3. Linking Cash Flow to Strategic Goals

A medium-sized ICT services business in Egypt aligned its cash flow forecasts with its expansion plans. By forecasting the cash required to fund new projects, they secured project financing in advance and avoided any disruptions to cash flow during periods of such projects.

Summary

Effective cash flow management in the middle east requires a careful blend of best practices and strong personal relationships. As demonstrated through the real-life examples above, businesses can improve cash flow by strategically managing accounts receivable, payables, inventory, and cash forecasting.

By implementing these strategies, business owners can better position themselves for long-term success and sustainability, even in the face of market volatility.

Disclaimer: This whitepaper reflects the experience and knowledge of a seasoned CFO in the Middle Eastern market. However, every business is unique, and it is recommended to consult with a financial advisor to tailor these practices to your specific needs.