Managing Cash Flow

Introduction

Two of the major failure points for small businesses is (1) insufficient cash to pay the bills because of poor sales and (2) destruction of working capital from unmanaged growth. Don't kill your dream because the cash box is empty, managing Cash Flow is an essential competency of any successful owner. Cash on Hand is the lifeblood of a business regardless of whether it is from sales margin, retained earnings, or credit.

What You Need to Know

This Executive Summary will cover the 3 Elements of Managing Cash Flow:

1. Inventory is Cash Collecting Dust
2. Pay Suppliers at the Last Possible Moment or Immediately
3. Money Owed Over 30 Days is a Loan

1. Inventory is Cash Collecting Dust. Whether you paid cash upfront or on credit, all inventory needs to be viewed as unavailable cash. Once it is sitting on a shelf gathering dust it only provides value after production, billing, and payment received. The less you hold, the better your cash position. Ensure you understand minimum replacement levels to prevent work stoppages.

2. Pay Suppliers at the Last Possible Moment or Immediately. Keep you cash velocity positive by negotiating smart terms with your suppliers. Start with gaining quick pay discounts with two objectives – the largest discount for the longest period. An example is a 10% discount for payment within 10 business days instead of 10% for 5 business days. If they don't offer discounts or it is too small – push payments as far out as possible without penalty – 45 instead of 30 days.

3. Money Owed Over 30 Days is a Loan. View your accounting department as a source of cash. The quicker you are paid, the less cash you have to hold on hand or the less credit you will have to use. Establish a process where your staff are on a first name basis with customers (or their finance department) and have several conversations before the due date. For those reoccurring customers that just pay late – have you considered factoring?

What You Need To Do

1. Inventory is Cash Collecting Dust. When you buy raw materials the clock ticks. The goal is to base inventory purchases and levels on the JIT (Just In Time) demands of customers.

- Base purchases on demand, not on a historical schedule, never order raw materials until a purchase order is prepared on a closed deal;
- Increase your "turns", make it a high priority to double the number of times you turn over inventory per year;

- Order in the smallest lots possible (without sacrificing discounts) and supply your projects with multiple deliveries per week.

2. <u>Pay Suppliers at the Last Possible Moment or Immediately.</u> Smart management of Accounts Payable requires balancing several issues at once – quick pay discounts, velocity of cash in and out the door, and improving your credit.

- Quick Pay Discounts: whenever possible arrange for a quick pay discount that makes it worth your while to pay quickly – a discount at least the same rate as the factoring discount;
- Manage the Velocity of Cash: when discounts are not available or too small, slow down the outflow of cash – when Accounts Payment cycle is smaller (fewer days) than the Accounts Receivable Cycle you have negative velocity;
- Using Commercial Credit: the balancing act gets complex, in commercial credit you don't get full credit for paying on time – you maximize credit by paying before the due date.

3. <u>Money Owed Over 30 Days is a Loan.</u> You are not a bank, when customers don't pay within the agreed terms (usually 30 days) you are loaning them money – that has to stop:

- Invoice Accuracy – inaccurate invoices provide the customer a legitimate reason to avoid payment;
- Invoice Follow-up– establish a follow-up date (5 days after mailing / emailing) to call customers and review the invoice to ensure accuracy and there are no obstacles to on-time payment;
- Factoring Your "Loans" – based on historical records, any customer habitually over 45 days - sell their AR to a Factoring Company and receive 93% of the total within 24 hours.

Where You Can Get Help

1. <u>Inventory is Cash Collecting Dust.</u> Apply the principles of JIT to identify minimum replenishment levels and demand-based purchasing - For more information on JIT click GreenMark Consulting Group.

2. <u>Pay Suppliers at the Last Possible Moment or Immediately.</u> Reduce the number of suppliers, improve payment terms, and increase the frequency of shipments – For more information on Suppliers click GreenMark Consulting Group.

3. <u>Money Owed Over 30 Days is a Loan.</u> Understand customer payment history to decrease AR aging or factor their invoices – for more information on Accounts Receivable click GreenMark Consulting Group.

Summary

grow
CLARITY • VISION • EXECUTION • GROWTH
Serving Green Industry Companies throughout North America
www.greenmarkgroup.com

You cannot survive and grow without cash on hand. Most small businesses are losing 15% of their available cash because of inadequate attention and management. Get cash flow positive by reducing inventory, negotiating better terms with fewer suppliers, and bring AR under 30 days. For more information contact William Eastman @804.433.3886.