

Do The Math!



Cash Flow Blues

By Jay Goltz

When you are in the business of framing larger projects, the term “cash flow” becomes even more pertinent than when you are doing retail custom framing. First of all, in retail you can usually get 50 percent of the bill paid up front, which effectively covers both your materials and labor. This frequently causes positive cash flow because the customer picks it up and pays in full before the invoice for the materials is due.

When you do large contract jobs, it could be a very different situation. Sometimes you can get a deposit on large jobs and sometimes you can't. Let me give you an illustration on how a profitable job can create cash flow havoc and what you can do to avoid it.

Say a well-known Fortune 500 company gives you a very large contract job to frame 2,500 pieces at \$40 apiece. You received a purchase order from them on January 1, and you were told the prints would arrive later in the month. The company has a policy of not giving deposits. You ordered the moulding immediately because prior experience tells you that it could take two to four weeks to get in. It's not the only job you have in-house, and you need about four weeks to get the order done. It cannot be late and needs to be done by March 1. The moulding is in stock and arrives at your facility pretty quickly—on January 15.

Unlike a retail job, your cost of materials runs about 45 percent, resulting in invoices totaling \$45,000. The prints end up coming in late because there was a problem at the printer; instead of getting there at the end of January, you get them February 15. In turn, the company extends your due date to March 15. After the prints come in, you get the job done in four weeks. It's March 15, and you're feeling good. Job well done.

Except that you have a problem. That bill for the moulding is dated January 15, and it's now been 60 days. You told the company that you'll pay them any day now, but they're getting tired of your promises and you're losing credibility. Not only do you not have the money to pay the vendors, but you've also paid \$20,000 in payroll to get the job done. And the customer hasn't paid you yet. You sent an invoice, gave 30-day terms (as expected), and are expecting payment by April 15. That's 30 long days from now. Your vendors just see that

Event	Date	Days Overdue
Receive order from client	Jan 1	-
Moulding arrives	Jan 15	-
Prints Arrive	Feb 15	24
Ship to Client	March 15	15
Client Invoice due (30 day)	April 15	-
Client Invoice paid	May 15	30
Moulding bill paid	May 15	120
Print bill paid	May 15	90

your invoice is past 60 days and don't really care about your problem because they have their own bills to pay.

Oh, it gets worse. You spend the next month swearing to your vendors that you will pay them by April 15. Then April 15 comes, and your client's check is not in the mail.

Welcome to the real world. You call your contact, who says they'll look into it. By the time that happens, the payable clerk gets back from vacation, the person who's supposed to sign the check is gone for a day to attend his daughter's dance recital, and so on. Then the slowness of the postal system means you don't actually get paid until May 15—maybe. This is what's called a cash flow problem. You also have a credibility problem with your vendors, some disgruntled employees who did not get their paychecks on time, and a stomach ulcer.

The solution to this problem is to have a credit line at your bank—if they'll give you one. Banks always want collateral, so if you have already used your house or any other assets you have (or if you don't want to), the typical credit line can be based on your inventory and receivables. The typical “Advance Rate” will be 80 percent on the receivables and 20 percent on inventory. Banks don't like lending against inventory. It's too easy to lose and is difficult to sell off if they need it to pay off the loan. Some banks won't even consider using inventory as collateral.

Companies go broke because they can't pay their bills. If you want to have a healthy, stable business you either need to have extra cash or available lines of credit. If you have neither, you'd better be very careful about taking in large jobs with no upfront cash. ■