

Maximizing Your Cash Flow

By Mike Hulser

Techniques that can help you effectively manage your financial position

It is clear that 2008 will be a challenging year for many businesses, including, of course, production framers. Most of the business current events news and forecast information is less than favorable. Effective cash management will, therefore, be more important than ever. Production framers that effectively manage their cash have a fighting chance of getting through the situation just fine. Those who don't, face a battle just to survive. Below is a primer on specific techniques production framers can employ to favorably manage their cash flow.

Contracting, Purchasing, Selling

- **Up Front Deposits**—Always ask for them when selling, particularly on large commercial projects. Don't agree to them when buying.
- **Payment Terms**—When selling, start with “Immediately Due and Payable.” Use “Net 30” as a fallback. When buying, ask for 60 or 90 Days or “spaced out” terms—30-60-90, one third each.
- **Cash Discounts**—Do ask for them and take them when buying (take them only if your cash position can stand it). Don't offer them when

selling. Collect your receivables by performing well (high quality framed products, shipped on time, documented accurately) and “asking for the money.”

Invoicing

- Invoices should be produced the day of shipment or, worst case, first thing the day following.
- Invoices should clearly show amount due, payment terms, and date due. This should be the most prominent information shown.
- Attempt to get the right to invoice electronically. It is much faster and it removes the “never received the invoice” dodge.

Collecting

- Nothing beats delighting the customer with your service (quality, timeliness, documentation). Happy customers generally pay without complaint.
- Right up front in the relationship, get the contact information for all of the customer's key people, including the Accounts Payable people who will be paying your invoice.
- Consider calling the customer even before payment is due. Ask if the invoice was received and if there are any questions. Thank them in advance for timely payment.
- Call the customer the day after the due date, if payment has not been received. Get a commitment and, if possible, a check number and check date.
- Persevere. You want your customers to know that you will call, and keep calling, if timely payment is not received.

- Unfortunately, some customers' “bad behavior” may warrant you going to “cash in advance” or C.O.D. Don't be timid. It's their fault, not yours.

Paying

- Always use written Purchase Orders (PO) to purchase materials (moulding, mats, etc.).
- Require independent (not the person who issues POs) documentation of Receiving of all purchased materials. At a minimum, count the number of boxes.
- Require a 100 percent three-way match—PO versus Receiving versus Invoice—before you pay. Pay nothing until any discrepancies are fully resolved. The burden is on the supplier.

Turning the Inventory

- Use tools such as the 80/20 Rule, Turn and Earn and GMROI to determine where best to put your Inventory investment.
- Use an “open to buy” mechanism to control purchases. Make tough decisions.
- Don't bring product in too early (weeks) and don't bring in too much (months) at one time.
- Work hard to identify fast turning items and keep them in stock. These are what drive your sales.
- Continuously identify the slow turning items and liquidate them for whatever cash you can get for them. Return to suppliers, if possible, in trade for fast turners. Stay on top of this because this is one job that is never “done.”

Capital Expenditures

- Require both an "Assessment of Alternatives" and a "Payback Analysis," in writing, before you decide. Saws, mounting presses and mat machines have one purpose—to make money. One alternative is always to do nothing.
- Implementation timing is key. Push back the cash outflows as much as possible. Pull forward the "inflow producing implementation" as much as possible.
- Always at least look at leasing versus buying.
- Take a look after the fact. Did you get the results, the payback, you were pursuing? If not, why not? Try hard not to repeat your mistakes.

Rolling 13 Week Cash Flow Forecast

This is where it all comes together, the "overriding mechanism."

- First—forecast the inflows (cash revenue), per the sales plan and receivables collections.
- Second—you know the *hard* outflows—personnel expenses, rent/utilities, debt, and taxes. Sum these and subtract the sum from the forecasted inflows.
- The difference is what you have available for potential payment to suppliers. You can't disburse what you don't have. Some suppliers get better treatment than others, based on importance to the business.

There are few things more important in business than staying on top of your cash position. Just like you can't be in business without customers, you can't stay in business without effectively managing your cash flow. If you employ the above techniques, you will be doing it as good as it is done anywhere, in any industry. ■

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