

# Do The Math!



## Playing With Percentages

By Jay Goltz

**D**uring normal business cycles, business people usually pay attention to profit. During economic slowdowns, cash flow frequently takes center stage. Add to that the financial meltdown of banks, and cash flow is king.

There is a big difference between cash flow and profit. You could lose money and have positive cash flow and survive—for a while. On the other hand, you could be profitable but have bad cash flow. And that leads to bad things—you stop being able to pay your bills and are forced into bankruptcy.

The most fundamental things that affect cash flow are changes in inventory, accounts receivable, accounts payable, non-trade debt (banks, credit cards, etc.) and the amount of cash on hand. Each one of these items can either give you extra cash flow or use it up.

While we navigate these perilous times, it's important to understand the results of financial decisions that have to do with payments made and payments received.

Let's do the math!

Say that a customer asks for extended payment terms. You need the business. The customer needs the terms. It will help both of your businesses if you get the job. Well, maybe yes, maybe no.

You get a \$30,000 job and the customer asks to spread payment over three months. What's it costing you? That depends. If you are pulling money out of a bank account, maybe it's only costing you 2 percent interest. If you have to put it on the credit line of your business, maybe it's costing you 7 percent. If you have to finance things on your credit cards or you are not able to pay down your credit card because of this job, maybe it's costing you 21 percent.

Let's see what the real cost of doing this in these three scenarios.

	From the bank (2%)	From a credit line (7%)	From credit cards (21%)
\$30,000	\$50	\$175	\$500
\$20,000	\$33	\$116	\$350
\$10,000	\$17	\$58	\$175
<b>Total</b>	<b>\$100</b>	<b>\$349</b>	<b>\$1,025</b>

As you can see, the cost of allowing terms over three months varies dramatically depending on how you are financing it. You can build it into the price.

Because of the special times we are living in, I am going to take “Do the Math” to a new level. An accountant can tell you how to do the math. I'm going to tell you how to really do the math. I am confident that if you did this for 10 different customers over the year, even if you had a really good relationship with them, one of them is going to go broke and you will not be paid at all. Do the math on that!

The harsh reality is, if you give customers credit, you will most likely get stuck eventually. Developers go broke. Designers go broke. Framers go broke. People go broke. In my experience, before they stick you for the bill, they are going to do everything they can to not go broke. When you start to get involved with these payment plans, that's frequently a sign that they're trying to avoid going broke. Just make sure it doesn't happen to you instead of them. ■

*Jay Goltz owns Artists' Frame Service in Chicago, which employs over 80 people at its main framing operation. He has received many business honors and is known for his straight talk on succeeding in business.*