



Basics of Cash Flow- Part Two

Financial Statements

Monthly- Timely and Accurate
Budgeting- Annual and Rolling
Enhanced Management Reporting
Cash Forecasting and Analysis

Profit Improvement

Pricing Analysis
Gross Profit Optimization
Expense Reduction Analysis

Banking Relationships

Assess Level of Credit Needs
Bank Analysis and Selection
Loan Package Preparation
Credit Facility Negotiation

Strategic Planning

Development of Critical Goals
Alignment of Work Systems
Working the Plan
Effective Feedback Systems
Innovate Purposefully
Implement Review Process

Bookkeeping

Bank Reconciliations
Regular Financial Statements
Invoicing & Collections
Bill Processing & Payments
Remote or On-site – 24/7 availability

QuickBooks

Set-up
Training and Consulting
Tune-up
Software and add-on discounts

Placement

Analysis of Existing Position
Interim Assistance Provided
Coordination of Selection Process
Temp to Permanent Alternatives

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In our last issue of Finance Nuggets, we started the process of breaking down the Statement of Cash Flows to better understand this underutilized but important financial management tool. We focused on ways to accelerate cash into a company through effective invoicing and receivable collections. This edition will look at ways to hold on to your cash longer- slowing the flow of cash out of the business. Some people call this vendor management although the principals are broader than just your suppliers.

Where do you start??? I suggest the following:

- Identify the trade/credit terms that all of your “cash users” offer you. For some, there are no trade terms – cash payment only at delivery. Most however will provide you with some flexibility. For many monthly fixed expenses- rent, utilities, etc- the payment is due on a specific date with grace periods that range from 10-30 days built in. Figure out what the specific grace period is and build it into your payment process.
- Your employees usually have terms- is it weekly, 2x per month, monthly? Why do you have your current payroll cycle and does it fit into your cash collection cycle? If not, make some changes to ease cash flow.
- Vendor terms vary from vague to very specific. What does “due on receipt” really mean? What are they willing to accept? Pay immediately? Pay in 10,20,45 days? What financial impact does 2-10, net 30 days have on your business.
- Once you have identified these various trade terms, load them into your accounting system to keep track of the ongoing flexibility of spending your cash.
- As expenses are received immediately enter them into your accounting system including the due date.
- This next step will vary by company – establish a regular routine for processing payables. For most companies this will be 2x per month- usually the 1st and 16th. For others it may be every Friday, others 1x per month. The key is getting into an intentional regular process for paying bills.
- Print a listing of what bills are coming due. Only pay those that are due in this specific period. If someone is providing you 45 days to pay your invoice, then take 45 days. Save your money and earn interest off those funds.
- Periodically, you may have excess cash to pay invoices early. Use this to your strategic advantage. Make sure vendors know you are paying earlier than terms allowed so it buys you favor in the future.
- Discounted trade terms- Some vendors will provide discounts for paying early (i.e. 2%-10, Net-30 days). Should you take advantage of these discounts? The general rule of thumb is if the discount is greater than 1% and payment is due in 30 days or less, then take the discount. The next issue of Finance Nuggets will show you how to calculate the value of the discount.

If you implement these processes in your business, your management of cash flow will become more orderly and provide you opportunities to earn more on the money you worked so hard to get.