

# Time is King

**W**e often think that the most important aspect of managing cash is, quite simply, cash. We have all heard “cash is king” when referring to challenging situations. But the underlying aspect of cash management is actually time.

A shortage of cash is usually the most obvious problem of a challenged business. Payroll can't be paid, the bank is pulling the loan, the venture capitalist won't advance another dollar, customers are paying slowly and vendors won't deliver essential components.

While cash is the *immediate* problem, the situation is a symptom of something greater—strategic and tactical missteps by management that have eroded operational integrity.

But why focus on what went wrong? Shouldn't we just find more cash? Not necessarily. After all, if those in the business couldn't manage money before, how will they manage additional funds?

## A Different Tactic

A structured approach to cash management is needed to address the well-being of the company and its stakeholders. Being short on cash becomes a consuming endeavor. Everyone's time and energy is devoted to finding enough cash for today, tomorrow and next week. With so many people involved with cash, no one is focused on the corrective actions needed to make the company whole and avoid future similar situations. The company then slips away because there was no meaningful change—not a lack of cash.

The first thing to do is to assign one person to manage cash. The others need to get back to work investing their time to correct the real problems, such as rebuilding customer relationships, retooling systems, dealing with their industry image and PR and increasing productivity.

Cash management needs to address all aspects of the cash process. However, before a controlled system is in place, one potential problem is reacting to or creating assumptions



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that have not been validated. For instance, the CFO, working on the assumption that the company will receive a big check next week, pays a number of “necessary” bills. But that check doesn't come for two weeks and the company is actually in more trouble because of promises made. If the company doesn't have a credit facility in place to support those checks, this is illegal per California Penal Code Section 476(a).

In this situation, before bills were paid, the questions might have been: “Are these *necessary and important* bills to pay?” or “How much information do we have on the customer to

## Cash Shortage a Sign of Some Deeper Problems

rely on their promise about sending the check?”

Here is a list of what is necessary to manage cash in a troubled situation, help prevent a troubled environment or mitigate risks in a rapidly growing company:

### Vision

A cash flow model needs to represent short and long-term views—weekly for the current month and monthly for the next 3 to 5 months.

### Future Cash

Do not assume projected cash receipts are valid based on future sales projections unless there is at least a 90 percent to 100 percent assurance that it will happen. So many people manage cash based on what they wish and hope will happen, not on reality. A better solution is to train staff to acknowledge when there will be a shortfall and deal with the shortfalls. Then if receipts do come in, you can deal with those positive occurrences.

### Different Perspective

Work your cash model from an operational, not financial statement perspective. Many people try to manage cash flow by using the traditional financial statement, income statement and cash flow model from a monthly perspective, with a 12 to 18-month view. Though valuable from a certain perspective, it's not about managing money; detailed daily, weekly and monthly management of money is essential.

### Customer Relations

Enhance your relationships with your good customers—the timely payers—while you train and educate your more challenging customers. Motivate your slow payers, rather than wear out your welcome with your best customers by asking them to pay faster. With the better customers, you can become creative about how best to support them.

For example, a major paper distributor was not able to ship as timely as before. Because

of the slower process, the company created a new approach whereby the customer could order ahead of time and the distributor's order desk would call to have a draft order prepared so that the customer did not need to prepare it. The company enhanced its service in a way that made sense for everyone. It took a negative and turned it into a positive long-term solution.

This approach was advanced for all customers and allowed the distributor to treat each customer equally and make a decision as to which customers might need to be dropped, based on resistance to solid ideas and poor pay history. It also advanced cash flow because the order process was accelerated by several days.

### Insurance

With most products sold on open item, you can apply for accounts receivable insurance, which will pay the company if a customer defaults or goes bankrupt. The insurance company also can provide a credit management function. Credit insurance will help you determine how much you should or should not sell to your customer, giving you a better idea of the wherewithal of the customers. It can help with your banker, too, because the collections may be guaranteed for them as well.

### Collection Firms

Engage a strong, reputable collection firm if you are not able to incentivize customers to pay. You might look to Credit Managers Association for a referral in California

### Delivery and Billing

Investigate whether your delivery system and billing processes are effective, correct and timely. One of the reasons a customer may not pay is incorrect billing. This could include pricing errors, quantity shortages and quality issues such as damaged goods or incorrect goods. Resolve any billing problems as soon as possible.

### Essential Vendors

Rank and pay your vendors based on their importance to operational and cash management processes. It's essential to make sure that those A and B vendors are attended to, broken out in your cash model and managed based on their essential natures.

For example, one company's controller decided to extend his payments to supply

## Cash management can help manage time, and managing time helps manage cash.

stores throughout the states that supported sales reps and customer service technicians. A large percentage closed accounts and caused an amazing amount of difficulty with reps and technicians—everyone thought the company was going bankrupt and stories flew around for months—and this was a healthy company!

### Keep Vendors Happy

Good public relations with vendors is essential, so talk to everyone, especially the A and B vendors. If you said you were going to pay on a certain date and you can't, then call them to set another date or send a small, meaningful amount to show good faith.

### Cash Requirements

Break out your cash requirements by category and to a level of detail you are comfortable with. If you like a line-by-line approach by payee, you would have "notes and loans," "payroll" and "accounts payable" sections broken up by As, Bs and Cs. While it may seem onerous, the more detail you add, the more useful information you will have available that will allow you more options and flexibility.

### Incentives for Customers

You also can incentivize customers to accelerate payments in the form of prepayments, deposits, reduced prices, etc. However, realize that what you do while you are cash-short will have a longer-term impact than you might think, and the deals you craft may haunt you for years to come.

Try to keep your pricing tied to the value of your services and products. If you give concession for cash sooner rather than later, craft some other accommodation, such as a longer lead time, performing the work on off-hours or some arrangement to get additional operational benefit.

### Cost of Layoffs

Layoffs are a consideration when in crisis mode. It's essential to be clear about the costs related to a layoff, such as vacation, sick time and severance. In addition, it's important to be clear that the correct people will be terminated.

Many times, management has a way of shooting the messenger. It's easy to shoot those making the most noise, but they may be the ones you need to keep. They aren't always the best performers, but they are

usually the ones that care for the business and are not shy about expressing that fact.

This does not mean that all forthright people are keepers. It means that you need to be careful who you let go and how you let them go. Their cost is the last and least of your criteria.

### Cut Pay?

Pay cuts are an option, but remember that there will be expectations of catch-up pay and bonuses when the situation is again stable. Remember that you are creating debt when you do this.

### Cash Aspects

Using a cash model that addresses daily, weekly and multiple-month cash aspects to run the business provides substantial control of the information process from an operational perspective.

By adding other key reports—like daily and weekly sales, order reports by customer or market or product/service profitability and updated sales pipeline reports of potential new business—the company can have an enhanced view of how it is doing or how it could perform.

Cash management can help manage time, and managing time helps manage cash. If you get control of cash, and the management team can get to the core problems to create solutions, this can increase cash effectiveness—if your shipping errors are reduced, invoices are paid sooner, production effectiveness is up, shipments go out sooner so cash comes in sooner, etc.

Often, additional sources of cash can be found without creating more debt, thus helping ease the tensions of an already stressful environment.

If handled with skill, cash management can be the focal point for transforming a difficult situation into an opportunity to grow new ways to run the business and service customers. 

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