

# Cash Flow Management

By Glen Boyls

**This guide focuses on companies experiencing cash flow issues.**

Cash flow is a critical financial indicator. A positive cash flow indicates the business is receiving more money than the business is spending. A negative cash flow indicates the business is spending more money than the business is receiving. A simple example of the cash flow formula:  $\text{Cash Flow} = \text{Total Collections} - \text{Total Disbursements}$ . A positive cash flow number is good; a negative cash flow number is bad.

**Cash flow problems are not limited to small and mid-sized companies. Some of the most recognized companies have experienced cash flow problems: financial and insurance, residential construction, automotive manufacturers, electronic retailers, home entertainment, etc.**

Establishing a sound cash flow management solution will require the involvement of senior management team members because they are all involved in bottom line results.

- Larger geographically dispersed companies with complex operations and products lines will benefit from a cross-functional team capable of contributing to the understanding of products and services offered, seasonality, customer payment history and terms, supplier chain vendor payment history and terms, and market space.
- CEOs responsible for turning around their company need to establish a realistic turnaround plan based on solid cash flow management and fact-based cash flow projects, acceptable to investors, lenders, suppliers, customers and employees.
- Good cash flow management will help entrepreneurs and high-growth company executives not only drive rapid sales growth, but also serve as a reminder to manage the collection of customer receivables.

**Five reasons why your company needs to master cash flow management:**

- Lenders need to know your company is financially solvent and can repay loans.
- Insight into your inventory exposure and customer's bill paying performance.
- Insights into your business units, lines of business performance.
- Payables optimization.
- Allows your company to maximize the value of cash.

**A Failing company will experience one or more of the following:**

- Negative cash flow.
- Denial of credit or access to working capital.
- Violation of loan covenants.
- Increased investor, lender and creditor interest.
- Changes in customer and supply chain vendor payment terms and conditions.
- Resignation of key management.
- Reduced outbound communications with investors, customers, supply chain vendors and employees.

**Failing Company Recommendations include:**

- Verify cash and liquidity positions, as quickly as possible.
- Meet with the person(s) responsible for Accounts Receivable and Accounts Payable on a daily basis to review the day's cash-in, cash-out activity and cash balance.
- Establish a weekly cash flow report, based on daily results.
- Establish a 13-week cash flow metric, spreadsheet or tracking system.

## **Business Planning (continued)**

- Involve a cross-functional team of key personnel to provide insight on day-to-day operations.
- Make decisive and significant cost reductions to increase cash flow.
- Divest non-performing lines of business / business units.
- Eliminate products and services without viable markets.
- Resize business based on revenue collections.
- Increase communications with investors, lenders, creditors, customers, supply chain vendors and employees.
- Hire a turnaround professional.
- Develop an end-game strategy.

### **At Risk Company Recommendations include:**

- Verify cash and liquidity positions, as quickly as possible.
- Tighten cash flow and liquidity management.
- Meet with the person(s) responsible for Accounts Receivable and Accounts Payable on a weekly basis to review the week's cash-in, cash-out activity and cash balance.
- Establish a 13-week cash flow metric, spreadsheet or tracking system.
- Establish real-time cash flow and liquidity dashboards.
- Align business strategies to market opportunities.
- Turnaround or divest non-performing lines of business / business units.
- Improve operational efficiency.
- Realign compensation and incentive plans to new business objectives.
- Aggressively pursue cost reduction initiatives.
- Explore credit options and access to capital.
- Eliminate products and services without viable markets.
- Maintain communications with investors, lenders, creditors, customers, supply chain vendors and employees.
- Develop middle-game strategies.

Large and mid-sized companies can leverage existing accounting system functionality to better manage cash flow. Small companies that do not have an accounting system, with cash flow functionality, can quickly create cash flow spreadsheets; however, cash flow spreadsheets can also be downloaded from Microsoft and other cash flow software vendors including:

- Microsoft Excel <http://office.microsoft.com/en-us/templates/results.aspx?qu=cash+flow&av=TPL000>
- ModelSheet [http://www.modelsheetsoft.com/apps\\_cfanalysis.aspx](http://www.modelsheetsoft.com/apps_cfanalysis.aspx)
- SurvivalWare <http://www.survivalware.com/index.html>

Should you have any questions regarding the information provided in this guide or to discuss your specific situation, please contact me.

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