



Cash Is King

Joseph A. Becker, CPA

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Positive cash flow is the universal metric of financial and operating performance. The Good News: You can improve your cash flow with several simple steps.

When investors judge a printing company, the better the company's cash flow and the lower its long-term debt, the greater its value. When banks and other lending institutions weigh whether to extend credit, a company's positive cash flow is a primary consideration. Both current and future business successes are dependent on cash flow. In short, **Cash is King.**

We are continually asked by printers, "We always show a profit, but where is the money?" A typical printing company can have cash tied up from 70 to 95 days before it can collect for a job. From inventory management to accurate and complete order entry to invoice preparation and collection, cash can seem to disappear. Here's a not uncommon breakdown:

Inventories.....	25 days
Order entry.....	4 days
Production/Shipment.....	7 days
Invoice mailed.....	6 days
<u>Cash collected.....</u>	<u>50 days</u>
Total Cash Cycle.....	92 days

As clients demand faster delivery, the pressure to reduce production days creates havoc for other cash flow cycle functions, making it critical to improve the speed and accuracy of these components. Let's address each in turn:

Inventory Investment

In recent years, the number of days that inventory dollars are tied up has been reduced substantially. Vendors offer just-in-time delivery of paper and film, plates, ink, and other graphic supplies, and ink can be purchased on consignment. It is essential to work with vendors who value your business—not just for your business volume and cooperation, but also because you pay bills promptly. You can do that by improving your cash position.

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“We always show a profit, but where is the money?”



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Let's look at the fictional Zero Printing Company. It has \$109,870 in total inventory and purchases approximately \$2,740,000 of paper, ink, film, plates, etc., to support annual sales of \$9,500,000. Zero purchases \$7,828 daily ($\$2,740,000 \div 350$ days) and has 14 days tied up in inventory ($\$109,870 \div \$7,828$).

If a company has established good relationships with its vendors, it has no need to tie up cash in inventory for more than 15-20 days. By developing mutually rewarding relationships, most printers have arranged for daily deliveries from their vendors, following agreed-upon procedures and payment terms.

The consignment opportunity works like this: The graphics vendor provides unopened boxes of plates, etc., that will be a comfortable month's supply. The vendor checks on the supply during the month and counts the inventory once a month for billing purposes. The printer provides an assured location—and pays its invoices with cash.

The Result: If Zero improves its inventory management from 14 days

to 12 days, it will increase cash flow by \$15,656 ($\$7,828 \times 2$ days).

Order Entry

The order entry procedure is the most important function in the cash flow cycle—and can be the most difficult to improve. Order entry provides the information that facilitates the efficiency in production and shipping; allows those billing the job to mail/deliver invoices within a reasonable time frame; and, with accurate and clear descriptions, improves the cash collection days.

This is the one function that needs the full cooperation of all departments:

Communication is the key ingredient. Production must relay the data necessary to do its job efficiently and maintain customer satisfaction. Timely and accurate information—e.g., expected delivery date; description of paper and ink; quantity, etc.—should be transmitted in a standard Production form.

The Next Day

Billing/Invoicing needs ALL the information required to send out the invoices immediately after shipment. There is no excuse for any delay. *Invoices should be out no later than three (3) days after shipment*—in most companies, sending and invoice the next day is preferable and achievable.

The Billing and Accounting staff need the exact job wording, company

“The order entry is the most important function in the cash flow cycle.”

purchase order number (if required), accurate shipping and billing addresses, etc. Billing standards may be different for each customer, but collections will improve if each customer's requirements are satisfied.

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Rather than trying to gather information after the work is shipped, author's alternations ("AAs") must be accounted for, approved by the customer, and entered into the system as the job progresses through production.

If part of the job involves using an outside services ("O/S") provider, get all job-related data, such as piece count, rates, etc., from the vendor immediately after he has completed his part of the work. If he cannot provide it to you within this framework, look for a vendor who can.

With all departments and job components communicating clearly and completely, Zero's job entry process time can be cut in half, from four days to two days. The resulting improvement in cash flow can be calculated as follows: Sales of \$9,420,850 ÷ 350 days = \$26,917 cash per day; two days improvement (2 X \$26,917) equals \$53,834 more cash in the bank.

Invoicing/Billing

Our friends at Zero Printing Company waste six days to process an invoice. This unacceptable

practice forces Zero to increase its line of credit and incur greater interest expense. There are plenty of excuses for this delay: The company is waiting for an outside binding invoice; the plant is behind in gathering all the costs; the salesperson is on the golf course with another client and the invoice needs his/her approval; a freight bill hasn't arrived; a P.O. number is missing; AAs have not been priced or approved, etc.

None of these excuses is acceptable. Because the billing procedure is so important, Zero's president or CEO must DEMAND that there be NO excuses. If the customer has not received the invoice, how can he pay it?

As noted above, gathering the O/S and AA costs can be built right into the production process. In our e-commerce world, the cost of freight can be readily determined without waiting for a paper bill to arrive, and employees in Sales and Accounting must

understand that it is a critical part of their job to ensure that an invoice is sent out immediately after the work's completion.

If Zero improves billing from six days to a more acceptable two days, look what happens:

$6 \times \$26,917 = \$161,502$; $2 \times \$26,917 = \$53,834$. The cash improvement is \$107,668—and that's almost as much as Zero's annual profits.

Zero has improved its inventory management, tightened up on the accuracy and thoroughness of job entry, improved manufacturing efficiency, and completed invoicing promptly, reducing its cash flow cycle by eight days, or about 10%. That's definitely a positive step, but the

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biggest part of the cash flow cycle seems out of reach because Zero's customers, on average, take about 50 days to pay a bill.

Cash Collections

Zero wants its customers to pay more rapidly, but it doesn't want to insult them because they might go elsewhere. Of course, if they fall into the 90-day column, maybe they should, but a 50-day average means there are probably some customers whose payments are in the 30-day column, so all is not lost.

Clean Up Issues

Trimming collection days will require a number of steps, including credit approval (see sidebar on page 6), collection follow-up (Calls), forming a "credit committee," and communication, communication, communication.

The "credit committee"—comprising the company's chief executive, Sales manager (or client rep), Production manager, Customer Service manager, and Accounting manager—is there to review questionable credit, address accounts in the 60 days + column,

and solicit input on improving client relations, customer by customer.

How long should Zero wait to call after the invoice is mailed? Within the first 15 days—not to ask for payment, but to thank the customer for his business and ask questions such as, "How do you like the job?" "Did you get the invoice?" "Do you have any questions about it?" "Is there anything else I can do for you?"

The objective is to clean up any issues well in advance, while the job is fresh in everyone's mind, and to

determine that the invoice was received (by the right person). Waiting 30 or more days to call only delays the communication.

That doesn't mean that follow-up calls asking for payment are not required. They are necessary and should be scheduled regularly. Asking for money owed is not a sin; it is just good business. Your customers know that. Your staff should be polite, but insistent when required. *(Continued)*

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Zero Printing Company's Cash Flow Cycle

When the fictional Zero Printing Company tightened the time required for job steps as diverse as inventory on hand, order entry, production and shipment, invoicing, and collection, it shaved three business weeks off its cash flow cycle, resulting in a significant improvement in the company's cash position and enabling it to fund future growth.

	Old Cycle	New Cycle	Improvements	Value of Improvements
Inventory Investment	14 days	12 days	2 days	\$15,656
Order Entry	4 days	2 days	2 days	\$53,834
Production/Shipment	7 days	5 days	2 days	\$53,834
Invoicing	6 days	2 days	4 days	\$107,668
Cash Collection	50 days	45 days	5 days	\$134,585
TOTAL	81 days	66 days	15 days	\$365,577



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Finally, if a bill becomes uncollectible, don't wait too long before taking legal action. This unpleasant alternative needs to be implemented as soon as the decision is made that normal collection procedures will not work. (It is assumed you have long ago decided not to take any more business from this customer).

Inherent in all these procedures and processes is the need for clear and constant communication. Everyone in the organization should know the issues behind the cash flow cycle and how he or she can contribute to their improvement.

Now the good stuff. Through these efforts, the Zero Printing Company

can cut collections from 50 days to 45 days, resulting in the following cash flow change:

50 days X \$26,917 =	\$1,345,050
<u>45 days X \$26,917 =</u>	<u>\$1,211,265</u>
Improvement:	\$134,585

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Use Proactive Collection Strategies

To shorten the collection cycle, some work needs to be done long before the bill is sent—in fact, it has to happen before you even begin to work on the job. It involves learning about a prospective customer, and it usually starts with a credit report that helps the company determine the prospect's credit history. Credit history sources can include other vendors, banks, local agencies, and companies such as Dun & Bradstreet.

If another printer reports a poor payment history by the prospect, it should be a warning sign, but not a conclusive stop sign. Perhaps the other printer was performing poorly, his billing cycle was slow, there were questions about charges, or there were other extenuating circumstances.

Printers can also use their banker to contact the prospect's banker to get a feel for their banking tendencies: Does the prospect keep reasonable bank balances? Does the bank value its business? Has the customer repeatedly overextended its credit line? The use of credit agencies is also necessary. It should be recognized that some agencies are not as diligent with their reports as you would expect, but they can provide a good indication if there have been problems.

A True Story

This process does require some additional effort, but going the complacency route can be costly. Consider this true story: One Friday afternoon a printer took in a \$45,000 rush job from a long time corporate customer. The paper was ordered and delivered to the plant on Saturday morning. The job went through to plate production and was on press for an hour.

With the job almost ready to go, Production discovered that no shipping address had been provided. The salesman decided to take a couple of samples to the customer's office and get the shipping information. He knocked on the door, but there was no answer. He tried the door and it was unlocked, but the vast office, normally very busy with 30-40 people, was absolutely empty. The customer, Eastern Airlines, had filed for bankruptcy Friday night.

An extreme example, perhaps, but it does underscore the value of quietly checking new customers' credit standing and reviewing that of existing customers every couple of years.



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Zero's working capital is computed as follows:

Current Assets	\$1,840,265
Current Liabilities	\$1,183,407
Working Capital	\$656,858

Sales of \$9,420,850 divided by working capital of \$656,858 means that Zero turns its working capital 14+ times a year. (In analyzing your company's situation, if you have a working capital turn of less than 14-15 times a year, you've got a, shall we say, 'situation').

The sidebar on page 4 shows that all the enhancements made by Zero have yielded a cash flow improvement of \$365,577. With this additional cash, Zero can achieve more than 50% sales growth--\$5,118,078 (\$365,577 X 14 annual working capital turns)—without borrowing or investing additional capital.

Most printing companies do not collect their receivables in 30 days or less. Accounts receivable can make up as much as 70% of the current asset amount that is used in this calculation. You must be proactive in improving your cash flow, if for no other reason than financing future growth.

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If you have any comments or questions, you may reach us at:

888-577-1717

or

talk.to.us@margolisbecker.com



*Joseph A. Becker,
CPA*

Washington, DC

10001 Derekwood Lane, Suite 210

Lanham, MD 20706

888.577.1717 p 301.577.1313 f 301.577.0431

Philadelphia

555 City Line Avenue, Suite 460

Bala Cynwyd, PA 19004

888.577.1717 p 610.667.4310 f 610.667.2099