

Stu's View

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Maximizing Cash, Part 1: Common Sense Steps

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Using cash effectively has never been more important than in today's economy. Slow paying customers and reluctant lenders are curbing incoming cash, while creditors demanding prompt payment try to speed up your cash outlay. Caught juggling at both ends, how can you control and maximize cash flow? There are several solutions to consider:

- Improve receivables
 - Tightening the internal billing cycle by even 1-3 days can help, especially when applied across the board to all accounts. Don't let invoices lag, waiting for the sales and billing departments' along with management approvals. Try implementing a strong, tight approval process. Make sure sales and billing staff understand that delays in preparing bills will lengthen payment cycles, and cause more pressure for strict collection procedures on the back end.
 - Tightening finished goods inventory control is prudent too. Consider implementing customer contracts for which you can produce up to a year's supply of product, but only print at 3 month intervals so you never have more than a 3 month supply on the floor. Some of our clients have even charged customers a finance fee for carrying excess inventory. Remember, sitting inventory absorbs cash.
- Production
 - Paper inventory control:
 - Sell excess inventory as scrap or recycled paper. Getting even pennies on the dollar is better than just tripping over it.
 - Sell odd paper to another user (for flyers, etc.).
 - Sell clients your "house sheet" whenever possible to avoid carrying specialty paper and reduce your number of SKUs.
 - Monitor inventory turns on paper (annual paper usage divided by average inventory value), and compare it to the industry standard of 16 times/year, or 23 days on average. Anything below 16 times per year is too much inventory.
 - Purchase other supplies (ink, plates) on consignment.
 - Here's an example:

Your supplier puts a box of plates on your floor and takes an initial inventory on the 1st of the month.

You open that box on the 15th, but the supplier doesn't re-inventory and bill you based on actual usage until the end of the month.

You've already used the plates for 15 days, plus you get another 30 days (or the agreed-upon payment terms) to pay for the consignment program. You've got better cash flow, and your vendor is happy to be promptly paid. It's a win-win for all.

Just watch the product's cost, as vendors may raise prices for this service.

- Sell Old or Unused Equipment.
 - Getting even \$30K for a press or \$10K for a cutter you no longer use means more cash working in your business.
- Accounts Payable
 - Take advantage of prompt pay discounts if you have the cash or an available line of credit.

These common sense steps can be successfully applied in any business. The recession presents a opportunity – and a good incentive – to revisit and streamline “loose ends” for a more profitable bottom line.

Stu's View is contributed by Stuart Margolis, CPA and Partner of MargolisBecker LLC to provide information that helps firms operate profitably. More information can be found at www.margolisbecker.com.

About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing and allied graphic communications industry, assisting thousands of companies with strategic and financial management, valuation, mergers/acquisitions, accounting, audit and tax services. The firm is noted for its expertise in enabling printing companies to optimize profits. Proudly, it is the purveyor of the industry's *Cash is King*, and *Value-Added Principles of Management*, and compiles the annual Printing Industries of America Ratios, the industry's premier financial benchmarking tool.

About New Direction Partners

The team at New Direction Partners LLC has guided over 200 printing company owners through the sales and merger process. The advisory services reflect a full set of skills to help you sell or expand your business: valuation, management consulting, financial advisory and investment banking. The deep experience and industry expertise at New Direction makes it uniquely suited to serve printing, packaging and allied graphic arts businesses.