

“Back to Basics”

The economy. These words have taken on new meaning over the last several months. Many of us had taken the formerly booming economy for granted, thinking that it would be ever-increasing and generally strong. In the current environment, the question “What’s next?” is one that many of us silently – and not-so-silently – wonder about nearly every day.

So...in a world where the answer to “What’s next?” is nearly impossible to predict, how can businesses minimize the impact of the new roller coaster economy on their bottom lines?



PROFESSIONAL OPINION

Curt Palutro

As the saying goes, cash flow is the lifeblood of business. Consistent inflow and outflow of funds is what keeps things running smoothly. In light of this, and considering that the business landscape is changing on a regular basis, there are several cash-flow-related areas in each business that can be reviewed and evaluated with an eye to strengthening the business during these challenging times.

Getting back to basics is what may be needed to bring some companies back from the edge and to keep others from approaching it. The following key cash flow components require a business owner’s and key management personnel’s attention and focus now more than ever:

Sales

Proper review and evaluation of potential customers is a must. A good sale is one in which you are ultimately paid. With sales, the extension of credit is expected by customers. Because of this, a company should be diligent in performing credit evaluations of all new customers and even current customers.

A review of current customer payment history should also be taken into account, where applicable, when re-evaluating a current relationship. With this information, a company should be better able to manage, with reasonable expectations, the relationship. In certain circumstances, for example, with “creditworthy-challenged customers,” the company should consider obtaining customer deposits, letters of credit, etc. This action attempts to ensure that the customer is reasonably able to afford the purchase and can provide the company a little more insight into the current financial situation of the customer.

Inventory

In a manufacturing environment, a company should perform a thorough evaluation of inventory, including current inventory levels and a review of current utilization. This should be moved to the top of the priority list if it is not already there. Most companies usually have some degree of inefficiency in the purchasing process that allows for stocking issues to occur on a periodic basis. Given that inventory represents cash only when the customer has made payment, the less time funds are invested in inventory the better.

Many business accounting and management software systems have the ability to manage inventory levels from multiple vantage points such as lead time, re-order points, safety stock, etc. Each of these



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vantage points attempts to make the inventory management process more efficient and effective. This, in turn, limits the investment of the company in inventory and can bring greater financial strength. As inventory is directly and indirectly impacted by sales, the more coordination that can be achieved between these two key areas the better.

Receivables

At times, one of the more challenging areas for a company to manage is the collection of receivables. For companies that may be in a “cash crunch,” receipt of payment may only be a phone call away. A financially solid company is generally one in which there is a regular and efficient collection process in place. These companies are not averse to enforcing timely collections through appropriate means (phone calls, correspondence, etc.).

One of the most important keys to proper management of receivables is consistent communication with the customer. This builds a relationship with the customer and allows them to know that there is an expectation of timely payment. With lack of prompt payment, the company should be consistent in its approach for obtaining payment, which may include the suspension of credit when necessary. As stated previously, communication is important since the expectation and potential actions to be taken will be known by the customer from the beginning of the relationship.

Payables

Payment of payables is only as consistent as the sales and collections of the company allow. In line with receivables, communication is an important aspect of proper payables management in conjunction with timely payment. A company should be proactive in its interaction with

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vendors. This allows vendors to be knowledgeable of the current financial situation of the company and provides some assurance that an attempt is being made to meet expectations of payment.

Payables can also be managed through reasonable inventory management, as stated above; but in times of economic downturn, this may be difficult to achieve. In such instances, working out payment plans and other purchasing options could provide an alternative to a complete suspension of credit. In all instances, though, vendors should be apprised on a regular and consistent basis regarding the status of payments in order to maintain professional relationships.

Business Plan/Budget

Now is as good a time as any to perform a review of your current business plan/budget. Some of the questions that should be asked by ownership and management are:

- 1) Is the plan realistic given current economic conditions?
- 2) Should adjustments be made to reflect a more “conservative” outlook?

3) Should non-essential budget expenditures be reconsidered?

These questions, as well as many others, need to be posed and considered. Additionally, the concept of “less is more” may fit your current business situation. The choice to maintain your current business level or decrease it may make sense given certain expectations with the industry or from a big picture standpoint. Conversely, expansion of the business may make sense for a profitable and financially strong company. There may be “bargains” on the market that will allow for growth at a fraction of the cost.

Cash Reserves

Companies that are able to should attempt to reserve profits and/or adjust planned expenditures for non-essential items in order to build a reserve of funds. This undertaking is not limited to companies that are significantly “in the black.” All companies should make an attempt to create cash reserves, thereby creating more financial flexibility within the business. Investment in the company through infrastructure, personnel, etc. is important; but creating financial strength to weather the current – or even a future – economic storm is also important.

Each of the points noted above only scratches the surface of what could be done within a company to improve cash flow. However, they represent the foundation for creating and/or continuing to build a profitable and strong business. A clear understanding of business basics and skillful execution of the key cash flow components discussed in this article should well serve a company now and into the future.

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