

## Stu's View

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# “Cash Is King” for Business Success

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Positive cash flow is a necessity for any financially healthy company. It is a key consideration for lending institutions in extending credit, and for potential buyers in assessing a selling company's value. The good news is that any company can improve its cash flow by implementing effective procedures in these key areas:

### Steps to Improve Cash Flow

<b>AREA</b>	<b>DO</b>	<b>DON'T</b>	<b>WHY</b>
<b>Invoices</b>	Send within 48 hours of job completion/shipping.	Hold more than 24 hours for salesperson's approval or for shipping invoice	Prompt invoicing shortens payment cycle.
	Call 15 days later to confirm invoice receipt and respond to any customer questions.	Assume everything is fine and the customer will pay in full and on time.	The follow up is good customer service. It also diffuses potential non-payment due to product or invoice issues.
<b>Credit Checks</b>	Conduct checks on all new clients. Consider an “up front” payment policy until creditworthiness is established.	Take on new or risky clients without assessing their payment ability and history.	Avoids potential late pay and bad debt issues.
	Review the credit of existing clients periodically.	Assume that everything is status quo with customers.	Financial status changes quickly. Stay informed about all clients.
	Explore various reference sources: banks, trade references, PIA affiliates, other printers, credit agencies (Experion, etc.), collection agencies.	Assume credit checks are a waste of time.	Credit check response timelines and information vary greatly. Use those resources that give you the most accurate and timely data.
<b>Collections</b>	Promptly follow up on all outstanding invoices.	Procrastinate!	Timely and persistent follow up is key in successful collections.
	Work with financially struggling clients on an incremental payment schedule for a <u>reasonable</u> time period.	Ignore Past Due accounts, accepting non-payment or no response at all from the customer.	Empathy is fine, but incremental payments show you are serious about collecting the debt.
	Refer uncollectible and non-responsive accounts to a collections agency.	Just give up/ write off the bad debt.	You deserve payment for services rendered. A % is better than nothing.

<b>A/R Aging</b>	Use the date from <u>Shipment</u> as the invoice date and age the A/R accordingly	Use the date the invoice is sent	More accurately measures the time between shipment and payment due date.
	Review all chronically late or non-paying accounts.	Don't allow A/R to exceed 40-45 days.	Identifies & weeds out the less desirable customers.

In addition to tightening your billing and collections processes, there are also key industry ratios that should be monitored as indicators of company cash flow performance. These include:

### Key Indicators

<u>INDICATOR</u>	<u>ALL FIRMS</u>	<u>PROFIT LEADERS</u>	<u>COMPUTATION</u>
<b>Days in Accounts Receivable</b>	47	44	# Days from Shipping to Date Invoice is Paid
<b>Current Ratio</b>	1.4	2.0	Current Assets / Current Liabilities
<b>Debt to Equity</b>	2.7	1.2	Total Liabilities / Total Equity
<b>EBITDA as % of Sales</b>	7.8%	14.7%	Earnings Before Interest, Taxes, Depreciation and Amortization / Sales
<b>Cash Flow Coverage</b>	1.15 to 1	2.50 to 1	EBITDA / Note Payments, Principle, Interest

Be proactive in your cash flow management, and actively use the key indicators that can help you monitor your progress. Pursuing a “Cash is King” approach will make – and keep - your company viable, even in challenging economic times.

*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](http://www.margolisbecker.com).*

#### About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing, packaging and allied graphic communications industries, 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 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 printing industry's premier financial benchmarking tool.