How to Stop the Cash Flow Drain

Stuart W. Margolis, CPA, MT and Brian L. Enverso, CPA, MS, CVA

(Published in Printing News magazine, October 9, 2006)

Too often, printing companies lose site of the cost of operations. When combined with slipping revenues, the ship can tilt and even capsize. Even though there are warning signs, these usually get ignored. Management's negligent behavior is largely attributed to denial. They really believe that the company can snap out of its slump.

The problem is that the longer you wait to address the underlying issues, the weaker the survival rate. First and foremost, in the words of Joe Becker, "Cash is King." A struggling company eventually becomes cash poor. If you want an uphill challenge, try running your company when the case dries up. It becomes impossible to work with critical vendors when you cannot throw them a bone. This article will discuss actions that should be taken in order for a turnaround to have a higher likelihood of success.

Apply Pressure

The first call to action is to stop the bleeding. The sieve that is siphoning the cash out of the company must be sealed at once. Operational costs must be analyzed and scrutinized. Does the current cost structure fit the level of revenues? It is vital to identify the critical vendors needed to keep current operations from halting. Accounts payable aging reports and vendor invoices are a good place to start your examination. It is imperative that non-essential vendors and cost drivers be terminated, as soon as possible.

In reality, cost cutting is across the board. Long-term employees may need to go. There is no love lost when the grim reaper is around the corner. Tough decisions need to be made, and usually as of yesterday. The cliché that "cream usually rises to the top" is very evident in key employee retention programs.

(Continued)

"Never take your focus off net cash flows. Daily cash reporting and timing of vendor payments is vital to survival."

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

How to Stop the Cash Flow Drain

Stuart W. Margolis, CPA, MS and Brian L. Enverso, CPA, MS, CVA *(Continued)*

Since time is of the essence, you need to identify the real performers and get rid of the others.

Review the Costs

An annual budget of ongoing and necessary expenditures must be compiled after reviewing historical financial statements and critical vendors. An annual projection of revenues and cash flows will address the going concern issue. Cash flow analysis must consider current operations, debt service, and prior period trade payable payments plans. The more detailed the better. These projections are important to demonstrate the printing company's value to secured creditors.

Cash Management is a priority throughout the whole turnaround. Never take your focus off net cash flows. Daily cash reporting and timing of vendor payments is vital to survival. You must always save for a rainy day. Managing receivables and collection efforts will go a long way to speeding up the recovery.

Checks and Balances

Rebuilding a healthy balance sheet is the long-term goal. By increasing your liquid assets and decreasing payables and debt, your equity builds value. Ironically, you still end up at the same point you would be at if you went into a liquidating bankruptcy at the outset—for example, ranking your balance sheet. The real difference on a turnaround is that you live to breathe another day.

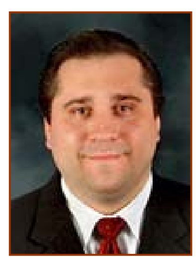
It may be a wise investment to seek the assistance of professionals. You may only have one chance to make it right, so put your best foot forward. Any successful turnaround takes a gallant effort, lots of luck, and hordes of patience.

MargolisBecker, The Business and Management Advisors, is a CPA firm specializing in the graphic arts industry.

Whatever your goals and needs, we have the solution. Our services include business valuations, mergers & acquisitions, turnaround management, auditing and tax compliance. The Company has prepared the PIA/GATF Ratio Studies since 1960.

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

888-577-1717
or
talk.to.us@margolisbecker.com



Brian L. Enverso
CPA, MT, CVA

Stuart W. Margolis
CPA, MT

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