MANAGING CASH FLOW AND DISASTER FUNDING

Thursday, June 25, 2020

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PROGRAM BEGINS @ 2PM

PIDC

Driving growth to every corner of Philadelphia

MANAGING CASH FLOW & DISASTER FUNDING

WELCOME

SAM RHOADS

Executive Vice President &
Senior Vice President,
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PIDC

MANAGING CASH FLOW & DISASTER FUNDING

PRESENTER

LEVAR HAFFONEY

Managing Principal

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VEDERE

Managing Cash Flow & Disaster Funding

Presenter: Levar Haffoney

VEDERE

AGENDA

1. What is cash flow management?
2. Why is it important?
3. Profit vs. Cash flow
4. Cash flow forecasting
5. Benchmarking
6. Cash conservation
7. Strategies & Tips
8. Q&A
9. Resources

WHAT IS CASH FLOW MANAGEMENT?

- *Cash flow management* is the process of tracking how much money is coming into and going out of your business.
- *Cash flow* is the term used to describe changes in how much money your business has from one point to another.
- *Cash flow management* is keeping track of this flow and analyzing any changes

WHY IS IT IMPORTANT?

- Drives the decision-making process
- Ensures that the business can pay vendors and taxes on time
- Generates funds for growth and expansion
- Increases the business valuation

PROFIT VS. CASH FLOW

- Many businesses struggle with either cash flow or profit
- Rapid growth can cause a crisis of tcash flow and/or profit
- A company can have positive cash flow while having no profit
- A company can have negative cash flow while having a profit

PROFIT

- Revenue generated that exceeds expenses, costs, and taxes
- **Gross profit** - Revenue minus the Cost of Goods Sold (COGS)
- **Operating profit** - Net profit a business generates from revenues, excluding interest
- **Net profit** - Net income after all expenses have been subtracted from revenues

CASH FLOW

- Actual money going in and out of your business
- **Operating cash flow** - Net cash generated from normal business activities
- **Investing cash flow** - Net cash generated from a company's investments
- **Financing cash flow** - Net cash generated to finance the company (debt, equity)

OPERATING CASH FLOW

- Generated from normal business activities
- Insight into the health of the core business or operations of the company
- Meets interest and debt obligations
- Affects business valuation

INVESTING CASH FLOW

- Purchase or sale of a fixed asset (property, plant, or equipment)
- Purchase or sale of marketable securities (stocks or bonds)
- Acquisition or disposition of businesses

FINANCING CASH FLOW

- Funding a company generates to finance the business
- Issuance and repayment of equity
- Issuance and repayment of debt and capital lease obligations
- Payment of dividends

CASH FLOW FORECASTING

- Estimation of a company's future financial position
- Assist in short and long term liquidity planning
- Ensure that the business has the necessary cash to meet its obligations
- Streamline working capital

DIRECT FORECASTING

- Short term liquidity planning (< 1 year)
- Include cash required to fund working capital
- Analyze upcoming receivables and payments

INDIRECT FORECASTING

- Longer term liquidity planning (> 1 year)
- Include cash required to fund longer term growth strategies and capital projects
- Analyze income statement and balance sheet (net income, pro forma balance sheet)

CASH FLOW FORECASTING

- Revenue
- Direct costs
- Labor
- Expenses
- Taxes
- Financing

CASH FLOW FORECASTING METRICS

- **Days Sales Outstanding (DSO)** - On average, the days it takes to collect receivables. The shorter, the better.
- **Days of Inventory Outstanding (DIO)** - On average, the days it takes for inventory to turnover. The shorter, the better.
- **Days Payables Outstanding (DPO)** - On average, the days you wait to pay your vendors and suppliers. The longer, the better.

CASH CONVERSION CYCLE (CCC)

- Measures how fast a company can convert cash on hand into even more cash on hand
- Helps manage inventory, accounts payable, and accounts receivable
- **CCC = DIO + DSO - DPO**

USE SOFTWARE TO TRACK METRICS

LivePlan

Adaptive Insights

A Workday Company

BENCHMARKING

- **Profit metrics** - How do your margins compare to the rest of your industry?
- **Productivity metrics** - How much revenue are you generating per employee?
- **Spending metrics** - What are you spending on key areas of your operation?

PROFIT METRICS

- **Gross margin** - How much (or little) of your gross revenue is consumed by costs. The higher, the better.

- **Operating margin** - How much (or little) of your revenue is available after you pay all of the required costs of your regular operations.

- **Net profit margin** - How much money your business made after paying all of your expenses.

PRODUCTIVITY METRICS

- **Monthly revenue per employee** - How much revenue your business makes per employee. You can benchmark the efficiency of your business model.
- **Monthly net profit per employee** - Estimate how much profit your company is making per employee. Gain insight into employee productivity.

SPENDING METRICS

- **Revenue spent on rent** - How much of your company's revenue is spent on a workspace. Consider alternatives to reduce costs and free up cash to grow the business.

- **Revenue spent on marketing** - How much of your company's revenue is spent on advertising, promotion, and other marketing activities.

- **Revenue spent on payroll** - How much of your company's revenue is spent on salaries, wages, on staff, and contract employees. Also includes employee-related expenses.

CASH CONSERVATION

- Establish a cash reserve, interest bearing account, with your financial institution
- Save 10% of each receivable in your cash reserve account
- Delay payments to suppliers and vendors
- Buy used equipment instead of new

CASH CONSERVATION

- Lease equipment instead of buying
- Repair rather than replace equipment or machinery
- Sign payment contracts with your vendors to lock in prices
- Require deposits on custom or large sales

CASH CONSERVATION

- Give discounts for prompt payments
- Assess interest/penalties on late payments
- Establish a layaway program
- Hire a collection agency to collect old AR or sell old AR to the agency

CASH CONSERVATION

- Establish an inventory credit line with suppliers and vendors
- Renegotiate credit card terms, insurance rates, and subscription rates
- Track inventory to reduce waste and keep tabs on inventory levels
- Reduce costs and delay purchases

STRATEGIES & TIPS

- Deliver invoices electronically to speed up the billing and collection process
- Negotiate favorable terms and rebates with suppliers and vendors
- Re-engineer your supply chain strategy (diversify your sources)
- Actively use the cash flow reporting features in your accounting software

STRATEGIES & TIPS

- Integrate cash flow planning with your P&L and balance sheet
- Match your sources of funding with your capital flows
- Perform monthly bank reconciliations
- Always ask for payment up front

STRATEGIES & TIPS

- Consolidate bank accounts
- Reduce workspace footprint
- Create a written compensation policy for owners
- Establish capital spending plans

STRATEGIES & TIPS

- Keep an eye on cash, not recorded profits
- Accept all credit cards and mobile payments
- Bundle products and/or services
- Create a back-end product or service

QUESTIONS

RESOURCES

- Quickbooks.com www.quickbooks.com
- Xero www.xero.com
- NetSuite www.netsuite.com
- Fathom www.fathomhq.com
- LivePlan www.liveplan.com
- Workday Adaptive Planning www.adaptiveplanning.com
- Reference USA www.referenceusa.com
- Deloitte www.deloitte.com
- Investopedia www.investopedia.com
- The Balance www.thebalance.com

UPCOMING ZOOM WEBINAR

DISASTER FUND PROGRAMS

Tuesday, June 30
2:00 PM – 3:30 PM

With so many disaster programs available, it is easy to be confused about which fund is best for you and your business. Is it a grant? Is it a loan? Grants are good, but will the grant meet your business needs? Low-interest loans are good, but how much additional debt can you manage?

Register Here: www.pidcphila.com/events/disaster-fund-programs