MANAGING CASH FLOW AND DISASTER FUNDING

Thursday, June 25, 2020
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PROGRAM BEGINS @ 2PM

Driving growth to every corner of Philadelphia
MANAGING CASH FLOW & DISASTER FUNDING

WELCOME

SAM RHOADS
Executive Vice President & Senior Vice President, Financial Services Group

PIDC

Driving growth to every corner of Philadelphia
MANAGING CASH FLOW & DISASTER FUNDING

PRESENTER

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Driving growth to every corner of Philadelphia
Managing Cash Flow & Disaster Funding

Presenter: Levar Haffoney
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 cash 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
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
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

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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