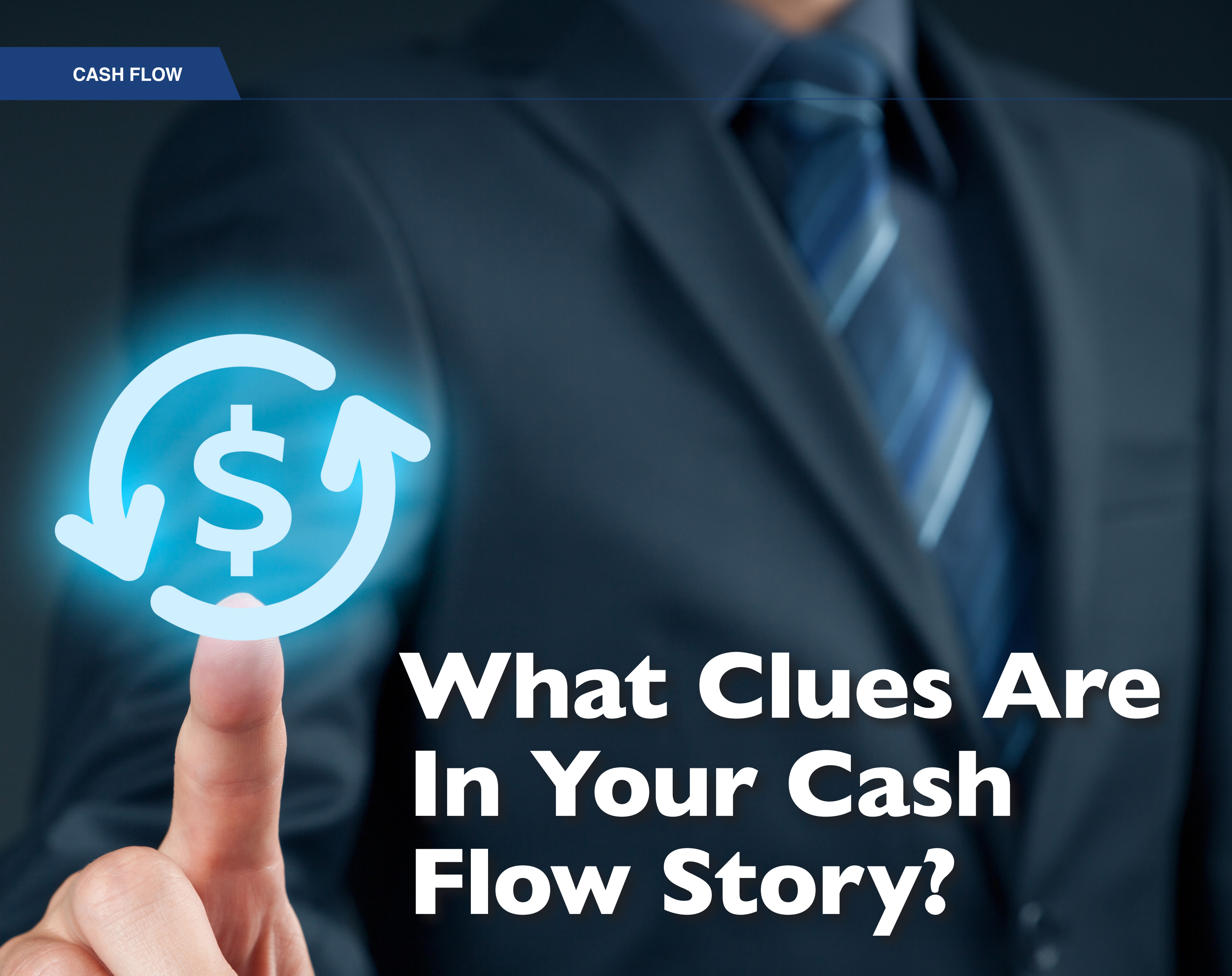

What Clues Are In Your Cash Flow Story?

As a sales engineer, I spent a lot of my corporate career ignoring financial reports, avoiding financial meetings, and dodging anything to do with bean counters. I now see the error of my old ways. Since moving into the world of training and coaching business leaders in best practices in Strategy, Execution, People, and Cash, I've found the quickest and often the most sustainable wins come from studying cash flow stories. By far.

I once found more than $1.2 million worth of improvements in one afternoon for a company with $5 million revenue. That's a pretty quick payback, don't you think? That company was bleeding cash, and their bankers were about to restrict their credit. During that afternoon, we reviewed their cash flow story, and their team committed to actions that dramatically improved their cash flow. Within months, they turned the business around, and the owner avoided a cash flow calamity.

But there's another benefit to understanding cash flow besides finding quick wins. Every company's cash flow tells a story. Like a good novel, your cash flow story unfolds over time and provides clues to many underlying themes in your business. Your cash flow story provides clues to your strategy, your execution, your people and culture, your leadership, etc. What's your cash flow story telling you? Do you have abundant cash? Are you satisfied with your profit but "cash is tight"? Does every $100 of new revenue enhance your cash or suck cash?

Studying the facts contained in your cash flow story provides a brilliant way to diagnose the root cause of your results, prescribe the steps you'll need to take to improve, and serves as the basis for making accurate predictions about your future. This is what Jack Stack meant when he famously said, "Your future is in your financials. You just need to understand and act on them."

HERE ARE SOME COMMON CASH FLOW PROBLEMS AND THE UNDERLYING THEMES WE FOUND WHEN WE DUG INTO THESE PROBLEMS:

Deteriorating Accounts Receivable

A recent client had an increase in accounts receivable of 83 days—from 36 days the previous year to 119 days this year. At $60,000 per day, cash was almost $5 million tighter than the previous year. Why? When we dug into this, we found a list of problems: invoices had been incorrect and rejected by the client (Execution issues); there had been turnover in this department and they'd lost track of their invoicing (culture and leadership problems); and some of their invoices were in dispute and the accounts receivable department needed help from leadership to reach an agreement with the client (which points to Strategy problems). We solved the problem by putting a team together that, armed with the motivation that every day of improvement meant $60,000 more cash, quickly resolved these issues.

Paying Too Quickly

I once had a client who paid their bills 21 days faster in the recent year than in the previous year. At $29,000 per day, this had drained their cash balance to the tune of around $600,000. When I showed the team this fact and asked why this was, the owner rather sheepishly admitted he was trying to save money, so he'd taken over leading the accounting department. He also made his receptionist (untrained) responsible for paying invoices and collecting money. Finding it much easier to pay an invoice than collect one, the receptionist promptly paid invoices on receipt. She had no idea of the impact of her actions! This discussion clearly pointed to both leadership and culture issues.

Mismanaging Inventory

To the average employee, increasing inventory makes sense with reasoning like "We might sell that some day," "Our supplier doesn't want it back," or "We made a mistake and can't charge it to the project." However, inventory is cash that you can't spend. It's dead money. When it's hard goods, it must be stored, kept in working order, and used before becoming obsolete. Increasing inventory can be a symptom of poor stock control and management practices, poor internal discipline, and lack of financial controls. A meeting with the team to dig into what's going on is usually enough to uncover the root of the problem.

Inability To Raise Prices.

If you could raise your prices, you would (obviously) improve both your profit and your cash flow. However, I always get push back on this one from leadership who are quick to point out how competitive their market is. I get it and I lived it, but I don't buy the argument. The first 20+ years of my career involved competitive bidding to nitpicky engineers with spreadsheets who were trying to get all bids "apples to apples." I learned, though, that buyers don't buy on price alone and will pay a premium price to receive what they feel is better value for them.

Your ability to deserve this premium is a result of your strategy. Are you delivering value on the things that matter most to your core customer, or are you wasting money doing things that don't matter to them? Every product or service has a long list of attributes—the things buyers consider when they're purchasing. If you're clear about how you can win versus your competition, then the most important of those attributes will be the ones you do better than your competition. For example, the client mentioned at the beginning of this article realized they were priced 10 percent below the market on their core service—and they were the experts in that field! Clarifying their value proposition and raising their prices was their first step in solving their cash flow problem.

Reducing Overheads And Cost Of Goods Sold

What does it mean when your overhead costs as a percentage of sales are increasing? There could be several causes, but a common subtle cause is poor people practices: excess turnover (the actual cost of turnover has been measured at 4X salary for supervisors and key technical people to more than 15X for executives), unproductive employees (an A player is 2X–3X more productive than a C player), untrained employees, etc. If you spot this trend in your cash flow story, you should take a hard look at your people practices as that's likely where your problems lie.

In conclusion, your cash flow story offers both quick-win opportunities and clues to understand the underlying themes in your business. Training your people on your cash flow story improves their understanding of your business, enables ownership thinking and improves their value to you. ◆

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