



Riding Out the Recession On a Wave of Cash

You can barely read or listen to business news these days without hearing the phrase *cash flow*. Recent eye-catching headlines, for example, include:

- *Companies Use Software to Track the Flow of Cash Into and Out of the Bank Accounts of Subsidiaries;*
- *AHS Predicts Cash Flow Could Run Out Soon;*
- *Lukoil Resets Strategy to Focus on Free Cash Flow.*

Clearly, cash flow is a big deal. No matter how solid your organization is in other ways, cash-flow management should always be a priority. But it gains significance in a tumultuous economy. To strengthen the grip on your company's cash flow, here are six suggestions to help get cash faster and hold on to it longer:

1. Forecast and Compare. The first step toward maximizing cash flow is understanding how and when cash is generated and used. Come up with a monthly cash flow forecast for a clear picture of when cash will come in and where it will come from, as well as when it will be paid out and where it will go. The cash flow outlook should include the following three elements:

Operating Cash Flow: This is the sum of the cash receipts and payments that are part of your organization's normal operations. Inflows come from sources such as cash sales and collections on accounts receivables. Outflows include contractual payments and other operating expenses.

Investing Cash Flow: This is an estimate of expected changes in non-operating activities such as dividend and interest income, sales or redemptions of stocks, bonds, and other investments, as well as purchases of capital assets.

Financing Cash Flow: This predicts changes from financial dealings such as getting a bank loan, selling shares in your company and paying out cash dividends.

Rule of thumb: To make forecasts as accurate as possible, underestimate revenue and overestimate expenses. As well, use actual financial commitments and other solid cash data.

2. Invoice quickly and make paying easy. Bill customers as soon as they receive their purchases. Invoices should clearly note the due date and the penalties for late payment.

Consider accepting credit and debit cards if your business doesn't already do so. Your company will pay a processing fee, but will get paid faster and save on the costs of mailing and re-mailing invoices.

3. Follow up promptly. As soon as a payment is overdue, send a reminder. People sometimes inadvertently forget to pay a bill, but they need to know that you expect payments on time and you charge late fees. The sooner your company chases after slow-payers, the better its chances of getting money ahead of less aggressive businesses.

4. Pay suppliers just in time. Early payments are not the way to manage your company's own bills -- they keep your enterprise from maximizing cash flow. Wait as long as possible before settling the bills. That way, your company keeps more of its cash for a longer time.

If you have a strong payment history with vendors, you may be able to negotiate better credit

terms. For instance, if you can stretch a payment period to 45 days from 30 days, you wind up keeping cash for 15 extra days. And when looking for suppliers, don't make the mistake of thinking that the lowest price is always the best deal. Sometimes flexible payment terms can improve cash flow and be more valuable than discount prices.

5. Keep customers close and bankers closer. Customers are the lifeblood of your organization, but if they're hurting from the economy, they may not be providing enough business to keep your company profitable. It helps to have a banker who understands your business and is willing to provide short-term financing if customers become scarce or unexpected expenses pop up.

You might also consider establishing a line of credit with a bank or credit union. If you do this, however, never let the balance exceed more than about one third of the limit. Once you show the institution that your business can manage the credit, it may boost the limit. Don't wait until the last minute before arranging credit. The best time to negotiate is when your company's financial situation is strong.

6. Renegotiate contracts. If your business has long-term contracts it arranged when the economy was stronger, it may be time to revisit those agreements. For example, if you're leasing real estate and paying a hefty monthly rent, you might be able to arrange easier terms with the landlord. Many real estate companies are experiencing large commercial vacancies and are often willing to renegotiate leases to keep the tenants they have.

Last Word: Inventory is not cash. In fact, inventory ties up cash. The leaner your company's supplies, the more cash it has for other uses. Find the right balance by determining how much stock your company needs to meet customer demand and how long it would take suppliers to fill last-minute orders. In addition, keeping inventory lean reduces the odds of being left with obsolete merchandise your business will have to write off, potentially generating a loss.

Lumsden & McCormick can help you come up with other ways specific to your industry and your business to better track and manage cash flow. It will put your organization in a position to weather this downturn and take advantage of opportunities when the economy rebounds.



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As a principal in our auditing and accounting department, Sara has over 10 years experience in services to governments, nonprofits, and commercial businesses. She specializes in counties, school districts, and commercial audits. Sara is a member of the American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants (NYSSCPA), the NYSSCPA Public Schools Accounting Committee, the Association of School Business Officials, the advisory council of the Western Chapter of the Government Finance Officers' Association, and is active in the New York State Association of Counties. She graduated from the State University of New York at Geneseo where she obtained a Bachelor of Science degree in accounting.