



# MASTER YOUR CASH FLOW:

**A GUIDE FOR ENTREPRENEURS**

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# MASTER YOUR CASH FLOW

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# CASH IS KING

Cash is the lifeblood of any business. Managing it well is one of your most important jobs as an entrepreneur if your company is going to survive and thrive.

Indeed, small business owners consistently say financial management is one of their biggest worries. Entrepreneurs named it as their second biggest challenge, after marketing and sales, in a 2014 BDC survey.

Yet many business owners aren't doing the basic financial housekeeping that could give them greater control over their company and more peace of mind, according to the survey of [BDC ViewPoints panel](#) members.

## Don't neglect basic steps

For example, almost half of surveyed entrepreneurs say they don't make cash flow projections for their business and compare them to actual results during the year.

Even profitable, fast-growing company can face a serious cash flow crunch while waiting for money to come in. In fact, it's surprisingly common for profitable companies to go out of business because they ran out of cash. That's why you often hear the expression "cash is king."

This eBook is a guide to the basics of good cash flow management. And since 82% of the entrepreneurs surveyed by BDC say they're responsible for managing cash flow and financing in their company, this book is for you.





### Learn to monitor inflows and outflows

The message of this eBook is that a few easy steps can improve your cash flow management and help you avoid financial stumbles. You'll learn how to prepare cash flow projections, use them to monitor your actual cash flow and make adjustments before problems fly out of control. You'll also learn how to finance your business more intelligently.

The eBook gives you techniques to collect cash more quickly, keep it in your business longer and sink less into inventory. Along the way, we offer seven emergency tips for surviving a sudden cash flow squeeze.

To help you apply the lessons, you'll read real-life stories of Canadian entrepreneurs, all BDC clients, who use smart cash flow management to fuel bigger profits and sustainable growth. It's a key to their business success, and it can be for you, too.





# BUILD A PROFITABLE BUSINESS

If you want to improve your company's cash flow, the first step is to take a look at your business and make sure you're earning an appropriate profit.

If your business isn't consistently profitable, better cash flow management—while helpful—will be no better than a Band-Aid on a potentially fatal wound.

And even if you are making a profit, could you be doing better? Is every one of your products or services pulling its weight and contributing to your profitability? Does your pricing take into account all of your costs?

A surprisingly large number of entrepreneurs can't answer these basic questions, but addressing them is a critical step in improving your cash flow.

## Careful analysis is vital

A careful analysis of the reasons for your profit problems is vital to coming up with the right solutions. Struggling businesses or product lines often suffer from more than one problem, which can make it harder to find a fix.

That's what Mike Whittaker discovered at his company, Bonté Foods, a deli-meat manufacturer in New Brunswick.

Based in Dieppe, a suburb of Moncton, Bonté faced grave cash flow problems in 2006 and 2007. The company had experienced major cost overruns related to an expansion of its meat-processing facility and an acquisition. It was having difficulty meeting some of its debt obligations, but it was too late to go back on those projects.







## Took action to improve profits

That's when Bonté took action on many levels to become more profitable. With the help of BDC's Business Restructuring Unit, the company carefully analyzed why its cash flow had deteriorated so badly.

Whittaker realized Bonté's pricing didn't reflect its costs, and the company responded by approaching its customers to ask for substantially higher prices. Most accepted, swayed by Bonté's analysis and the solid business relationships they enjoyed with the company.

The review also revealed that Bonté could boost profitability by unloading some product lines that had lower profit margins. "We narrowed our vision to a laser-like focus on meats, our core competency," Whittaker says.



*“We learned to watch our cash very carefully.”*

MICHAEL WHITTAKER | President | Bonté Foods

The company also launched an operational efficiency drive, which included tightening cash flow management and bringing in just-in-time inventory practices. "We learned to watch our cash very carefully," Whittaker says.

The changes spurred rapid sales and margin growth. Sales in the company's meat division are up 36% since 2009, while gross profit is up almost 6%. "Now we're a healthy company with a bright future."



## 4 profit pitfalls to avoid

Here are four of the most common causes of profitability problems for a business or specific product line, along with possible solutions.

**1**

### Insufficient revenue

Are your revenues enough to cover all your expenses and produce your desired profit? If not, why not? A possible reason is you're in the start-up phase of your business or have just launched a new product line.

If this is the case, it's important to be realistic about how long it will take revenues to catch up to costs. You may have to endure losses for one or two years—perhaps even longer—and you will need money from savings, financing or an investment to tide you over.

On the other hand, an established business may be running at a loss because its revenues have recently declined. It's important to quickly determine the specific reasons and address them.

**2**

### Inappropriate pricing

Do your prices cover your costs? Unfortunately, many entrepreneurs don't know for sure.

It's common for small businesses to price their products and services based on what the competition is charging. But that could be a mistake.

It's important to know all your costs and your desired return on capital, and to take these into account when you set your prices. It isn't necessarily bad for your prices to be higher than those of your competitors. In fact, this is perfectly appropriate if your strategy is based on differentiation—offering a unique or specialized product.

A growing number of businesses use estimating software to take the guesswork out of making job bids that better reflect their





costs. The software takes into account overhead costs, the price of material and other expenses as well as your targeted profit margin, ensuring that every job is profitable.

3

## Inefficiency

Are you being as efficient as you can be? This question is especially important if you are using a low-price strategy to gain competitive advantage.

It's important to look at each of your costs—such as labour, material and overhead—and benchmark them against norms in your industry. If your costs are above average, it means you're not as efficient as your competitors and action is required. For industry benchmark data, consult Industry Canada's SME Benchmarking Tool ([www.sme.ic.gc.ca](http://www.sme.ic.gc.ca)).

To improve efficiency, it's also worth exploring information technology tools. They can offer user-friendly and affordable ways to improve productivity across your business, including inventory control, operations, accounting, human resources management and customer relationships.

4

## Low margins

Do you know the profit margin for each of your products and services? Analyzing each one separately can be an eye opener and may reveal problems that you hadn't noticed. Products that aren't doing well may be dragging down your bottom line and cash flow, as well as diverting management focus from higher margin products.

Instead of just chasing more sales, chase profitable sales. Dumping losing products will likely speed up inventory turnover, freeing up cash and floor space so that you can generate more returns.







## 7 TIPS TO EASE A CASH CRUNCH

Facing a cash crunch? You may not have time to make structural changes to your business. Here are seven cash flow first-aid tips to bring in quick money and give you some room to breathe.

1

**Go to the bank**—Consider approaching your bankers for a temporary respite from your principal payments. The last thing your bankers want is for you to go under and not be able to pay back the loan at all. You may be surprised at their flexibility, especially if you present a solid plan for finding your feet that includes financial projections.

2

**Sell off inventory and assets**—Many businesses have inventory that's just taking up space. Walk through your office or warehouse to see what's collecting dust and dump it for a one-time cash infusion, even at a loss. A sunk cost is a sunk cost. Hanging on to it compounds the error.

Generate more immediate cash by selling off unused equipment and machinery. Use Internet selling sites or an equipment auctioneer. This may also create surplus floor space you can rent out.

3

**Work with your suppliers**—Be upfront about your situation. Can you get extra time to pay your bills? Could you offer partial “good faith” payments? Most suppliers would rather get paid down the line than not at all if your business fails.



4

**Reduce employee hours**—You can temporarily cut employee hours if business slows. It increases your odds of keeping everyone on staff instead of losing valuable personnel.

5

**Renegotiate your lease**—Ask your landlord to reduce your rent temporarily and let you make up the difference later on. Here again, many landlords would prefer to keep you as a tenant rather than run the risk of having an empty space.

6

**Offer special sales terms for immediate cash**—Generate fast cash by offering specials. Think of creative terms to get customers' attention. For example, offer a generous discount on purchases and, in exchange, ask for part of the bill to be paid right away. You can initially test your offer with select, high-quality customers.

7

**Factoring**—Consider selling your accounts receivable to a factoring firm. Such a firm takes your accounts receivable in exchange for immediate cash. Fees can be high—18 to 22% annualized—so this shouldn't be a long-term solution. But the cash might be available right away to cover a shortfall.





## PLAN YOUR CASH FLOW

Smart cash flow management starts with financial projections. They're an early warning system that helps you anticipate cash flow peaks and valleys for the coming year.

By doing projections, you give yourself plenty of time to plan the best ways to handle cash flow dips. These might include seeking additional financing, changing the timing of discretionary outlays, cutting expenses, ensuring an adequate cash reserve, or asking suppliers and bankers for some breathing room.

Your projections also allow you to create a performance dashboard, letting you see how you're doing throughout the year by comparing your projections against actual income and outlays. (See more in Section 3.)

### An end to guesswork

Without financial projections, anticipating slow times of the year is just guesswork. If you hit a cash squeeze, you can waste valuable time scrambling to figure out what's gone wrong and how to fix it. If you need an emergency loan, your banker is likely to be skeptical about taking on the risk and unimpressed by your lack of planning.

Matt Rendall says cash flow planning is critical for his robot manufacturing company, Clearpath Robotics, in Kitchener, Ontario. Sales are growing by 100% annually, and that can pose big challenges, especially if revenues aren't available to cover costs for new projects.



“If we’ve got four or five big projects that come online all at once and we need to start making payments on all those projects, we’ll get into a cash crunch,” he says. “Then all of them will pay at the same time, and we’ll be flush again. So cash flow management for our business is critical.”



“Cash flow management for our business is critical.”

MATT RENDALL | CEO | Clearpath Robotics

## Compares cash flow to projections

Rendall, Clearpath’s CEO, says he does cash flow projections at the start of each year for the coming 12 months. Through the year, he compares actual cash flow to the projections once a week to see how the company is doing and make needed adjustments. He also reviews his projections each quarter to see whether they need to be updated.

The projections are also useful for setting payment schedules for individual projects, indicating when customers will make prepayments.

“That’s been really helpful in smoothing the overall cash flow in our business. We’re receiving prepayments from our customers before spending money,” he says. “Our customers are financing their own jobs.”



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## 7 steps for making financial projections

**1**

### Plan your coming year

First, think about what you want to accomplish over the next 12 months. This should be based on your strategic plan for your business. In particular, be sure to list anticipated big-ticket projects, such as buying a new truck, redesigning your website or updating your computers.

**2**

### Make projections

To create your financial projections, you can use an Excel spreadsheet (many sample spreadsheets are available free online) or tools available in your accounting software. Based on experience and your plans for the coming year, prepare three documents:

- > cash flow projections that show expected monthly cash inflows and outflows, including major anticipated purchases and financing (if your business has very tight cash flow, you might need weekly projections instead of monthly ones)
- > a projected income (profit and loss) statement
- > a projected balance sheet

It's a good idea to include various scenarios—optimistic, most likely and pessimistic—so you can map out the impacts of each one and reduce the risk of surprises.

**3**

### Focus on actual cash flow

Your cash flow projections shouldn't include non-cash items, such as depreciation. Also, don't assume sales will convert to cash right away. Enter them as cash only when you expect to get paid, based on experience.



**4****Do contingency planning**

Consider contingency measures in the event of a sudden cash flow dip. It's better to have emergency steps ready than to try to wing it in a crisis. (For some ideas, see "7 tips to ease a cash crunch," above.)

**5****Think strategically**

Your cash flow forecast is a tactical tool you can use to answer strategic questions. Use it to experiment with what-ifs to see the cash flow impact of various scenarios, such as faster bill collection, slower cash outflows, improved profit margins, a big vehicle purchase or the elimination of your five slowest-paying customers.

**6****Set a target cash reserve**

Set a target you can live with for your cash reserve in case of emergencies. Many businesses like to have access to enough cash to cover at least 90 days of operations (including cash in the bank and room on their line of credit). But some businesses target even more if revenues in their industry fluctuate greatly. Study past cash flow cycles in your company and industry to set an appropriate target.

Also keep in mind that having too much cash on hand isn't good, either. It means missed returns, because the cash isn't available to be invested in the business.

**7****Get help**

Consider getting outside help in creating your financial projections and monitoring your progress through the year.







## TRACK YOUR PROGRESS

Monitoring your cash flow as the year progresses is one of the most important things you can do to track the financial pulse of your business.

Tracking your cash flow doesn't have to be complicated. Starting from your cash flow and other financial projections, you simply fill in your actual results for each period. Now you have an easily updated dashboard that will tell you how you're doing and quickly reveal variations that might require corrective action. (Accounting software often offers a dashboard as part of its cash flow management tools.)

Many entrepreneurs compare their financial projections with actual results once a month. However, some businesses with large fluctuations prefer a weekly check-in.

### Take a deeper look

Once a quarter, it's a good idea to take a deeper look at the numbers and update your projections as actual data become available. It's also useful to track these cash flow metrics.

#### Cash conversion cycle

Your cash conversion cycle equals your *average collection period* (how many days it takes your customers to pay you) plus *days inventory outstanding* (how long it takes, on average, to sell your inventory) minus *average days payable* (how long it takes you to pay your bills).

The lower the number, the better. It means you have more cash on hand to generate additional returns and/or reduce your line



of credit. Tracking this metric over time will help you identify sources of cash flow problems and measure your progress in improving your cash flow management. (See sections 4 to 7 for advice on how to improve your cash conversion cycle.)

**2**

### **Inventory turnover (inventory turns)**

This metric is the number of times your business sells its inventory per year. It is closely related to days inventory outstanding. The faster your inventory turns, the better. (See Section 7 for more details on inventory management.)

**3**

### **Cash on hand**

Continuously monitor how much cash you have on hand and check it against the target you set when you did your financial projections (see Section 2). Some businesses monitor this number daily. If cash on hand falls below your target, alarm bells should go off and you should take contingency measures. (See “7 tips to ease a cash crunch” in Section 1.)

## **Learned a lesson from recession**

The last recession taught Karri Schuermans a lot about the importance of cash flow management at the two Vancouver restaurants she owns with her husband, Nico.

“If the recession had continued, we wouldn’t have made it, simply because we didn’t have cash,” says Schuermans, co-owner of the award-winning Chambar restaurant and Café Medina. “We thought the contingency fund we used to run with was safe, but it actually wasn’t enough.”

Schuermans does cash flow projections for each coming year, divided up into 13 periods of 28 days each (in order to have the same number of days in each period).



## Checks actual results

She then checks the company's actual results against her projections at the end of each period to catch variations, determine their cause and come up with solutions.

"Our sommelier, bar manager, general manager and executive chef are each responsible for their cost centres being kept in line as a percentage of sales. And they receive bonuses based on being able to keep those in line, which is a good motivator.

"It's a way of delegating responsibility to my managers, allowing them to prioritize where the focus needs to be, based on the difference between actuals and projections."



*"If the recession had continued, we wouldn't have made it, simply because we didn't have cash."*

KARRI SCHUERMANS | Co-owner | Chambar restaurant and Café Medina

## Zeroes in on problems

Zeroing in on problems right away makes them easier to fix before they spiral into a serious shortfall, Schuermans says. "It's a way of keeping a really close eye, because there are so many different ways you can lose profit margin in a restaurant—from napkins, to breakage, to liquor spillage, to food over-portioning."

"If all of a sudden our costs are out, and we're not pulling those costs back in or making up for it somewhere else, then my cash flow isn't going to be what I expected."



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# CASH FLOW METRICS

## AT A GLANCE

**Average collection period**—Number of days it takes for your customers to pay you, on average.

**Average days payable**—Number of days it takes you to pay your bills, on average.

**Cash conversion cycle**—Average collection period plus days inventory outstanding minus average days payable.

**Cash on hand**—Cash in the bank plus available room in your line of credit.

**Days inventory outstanding**—Number of days it takes to sell your inventory, on average.

**Inventory turnover (inventory turns)**—Number of times you sell your inventory per year.



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## FINANCE SMARTER

Say you've got big plans to expand your small business. You'd like to buy a new truck, build a prototype or redesign your website.

How will you pay for your plans?

Many entrepreneurs make the mistake of paying for growth projects out of everyday cash, instead of seeking a business loan or other appropriate financing.

### Avoid putting stress on cash flow

That approach can put a lot of stress on your cash flow. Even if you have healthy profits and are flush with cash right now, what happens if your revenue hits an unexpected speed bump? With your money tied up in long-term assets, you could wind up in a sudden cash squeeze.

At that point, it's usually too late to approach a bank for emergency cash. Bankers aren't likely to risk a loan to a company with dodgy finances that has shown poor planning to boot.

Moreover, with cash tied up in long-term assets, you may miss out on opportunities.

### Match financing to asset lifespan

The key when paying for an expansion project is to match the source of cash to the type of expenditure. Everyday cash is appropriate for recurring expenditures such as payroll, office supplies and inventory.



When purchasing long-term assets, the rule of thumb is to match the financing to the asset's expected lifespan. You can get the most flexibility for your various spending requirements by arranging for a mix of term loans, a line of credit and overdraft protection—each matched to an appropriately aged underlying asset or purpose.



*“The risk is that when there’s an economic slowdown, you might have a hard time paying your suppliers.”*

YANNICK ACHIM | Owner | Fromagerie Yannick

Yannick Achim spends a little time every day tracking cash flow at his chain of six Quebec cheese stores, Fromagerie Yannick. “You can imagine the number of transactions and entries,” he says. “If we miss a few days in our cash flow management, it’s too hard to catch up and locate possible errors or reasons for a shortfall.”

## Borrow to protect cash flow

Achim says the recession taught him the importance of using financing to pay for long-term assets. Before that, he had used his working capital for purchases such as computer systems, cash registers and other equipment.

“We had a lot of cash, but it wasn’t really a good strategy. When the markets slowed in 2008, we didn’t have that cash anymore.



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“The risk is that when there’s an economic slowdown, you might have a hard time paying your suppliers. You could also miss out on business opportunities because your money is tied up in assets.”

## 4 financing tips to boost cash flow

### 1 Plan ahead

Work out upcoming financing needs when preparing your financial projections. You can then approach your bank ahead of time and arrange the best possible terms.

Having your projections in hand will help you show your bankers that you’re a good manager. The plan should spell out what you will use the money for, when you will need it and how you will repay it.

### 2 Compare loan terms

When considering a loan, don’t look only at the interest rate. The terms can be just as important. Can you defer principal repayments for an initial period? How much security does the bank need? How long is the amortization period? Flexible terms can free up more cash.

### 3 Talk to suppliers

Consider asking suppliers to finance a purchase. Many are willing to offer the equivalent of a loan (by accepting deferred payments, for example) if it means a sale. It’s a win-win for the supplier and for you.

### 4 Retire high-interest debt

Work with your banker to identify any high-interest debt that you can retire or reduce.





## GET PAID FASTER

Collecting accounts receivable more quickly is one of the best ways to improve your company's cash flow.

Collecting faster can also boost your bottom line. Let's say you reduce your *average collection period* (the number of days it takes clients to pay you) from 45 days to 30. If you have \$1 million in annual sales, that difference means 15 days more cash in your pocket by year's end—or \$41,000.

That \$41,000, in turn, means \$2,500 in annual savings in carrying charges on your line of credit (assuming 6% interest). Alternatively, you could use the extra cash to create additional investment returns—\$3,700 more each year, if your business earns 9% annually.

### 4 tips for collecting bills faster

1

#### Get invoices out faster

The faster you invoice, the faster you'll get paid. Be sure to send invoices as soon as you ship or complete a job, preferably by email. If you're working on a large job, consider negotiating upfront and/or milestone payments.

Technology can help you collect faster. Some types of accounting software let you send an electronic invoice that includes a link taking your clients to a digital portal where they can pay bills online.

Many businesses use mobile technology to speed up collections even more. If you're on a service call, you can use a smartphone



to log into a mobile billing service and enter the transaction details and your customer's credit card information on the spot.

Apart from being faster than creating invoices manually, using technology cuts mailing and paper costs. It can also reduce the risk of NSF cheques and the time employees spend generating bills.

**2**

**Offer discounts to faster payers**

Consider offering a small discount for quick payment (e.g., within 10 days). This is often called 1/10 net 30—meaning a customer gets a 1% discount for paying within 10 days; otherwise, the bill is due in 30 days. (Some businesses go as high as a 2% discount.) But these discounts are costly and should be used only if you need to get cash in the door quickly. (See the third tip in 5 Tips for controlling expenses below to see just how expensive such discounts can be.)

**3**

**Get tough on deadbeats**

One in four entrepreneurs say waiting for late-paying customers is the worst part of being a small business owner, according to a 2011 survey for Intuit. The same proportion of entrepreneurs say they spend three to five hours each week invoicing and chasing overdue payments.

One way to encourage your customers to pay on time is to charge late fees. Just be sure to mention the penalty interest you charge on invoices and then follow up with late payers. As well, when customers who have been laggards on previous orders come back, you can ask for partial or full payment up front.

Consider using an automated billing system that sends out regular reminders to late payers. When collecting bills, the rule of thumb is that the squeaky wheel gets the grease. Be firm and stay in regular contact with late customers, while maintaining a professional tone.



**4**

**Consider firing laggards**

Think about dumping your worst customers—chronic late payers, those who complain excessively or those who return a lot of merchandise. Companies often put up with such clients because they're afraid of losing business. But bad customers cost you money by draining employee attention and company resources.

Getting rid of bad customers can free you and your staff to give more attention to better customers and pursue new business.

Instead of telling customers outright that you don't want their business, you could increase their prices. They may balk at paying more and take their business elsewhere. On the other hand, if they do agree to pay more, the additional revenue should compensate for the extra effort they require.

## A matter of survival

For Wendy Tayler, cash flow management is a matter of business survival because of huge seasonal fluctuations in sales at her Whitehorse air charter company, Alkan Air.

She says cash flow management can be tricky for small business owners, but it's also vital. "Entrepreneurs are usually not accountants, so they're forced into this world of having to deal with cash flow without really knowing how to do it."

One of Tayler's favourite tools is electronic banking. Nearly half of her clients are now paying their bills through direct online deposit. She hopes to boost that number to 80%.

Implementing the change took some effort. She had to overcome resistance in her accounting department, where staff worried about keeping track of which invoices had been paid.



## Online payments save time

However, employees got on board when they saw the results. She estimates online payments go through at least seven days faster than conventional ones, due to saved processing and mailing time. “The receivables are getting paid more regularly, and there are a lot fewer follow-up phone calls that have to occur in accounting,” Tayler says.

Online deposits also help Tayler spot payment hiccups more quickly. “If a customer always pays you on the 21<sup>st</sup> of every month, but it’s now the 22<sup>nd</sup> and that payment hasn’t come in, you know there’s a problem and you can follow up right away.”



*“The receivables are getting paid more regularly, and there are a lot less follow-up phone calls.”*

WENDY TAYLER | President | Alkan Air



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# CONTROL CASH OUTFLOWS

Holding onto cash longer is just as important as getting paid faster. Both mean more cash in your business.

Roger Sholanki keeps a close watch on cash outflows at his Toronto software business, Book4Time. The company has seen nearly 700% revenue growth in the past five years, thanks to its wildly successful scheduling software tailored to hotel spa and fitness centres.

“We’ll pay bills on time. We won’t stretch somebody out,” Sholanki says. “But I don’t pay before I have to pay. Especially for big ticket items, we wait until it’s due.”

## Saves money with credit card

Sholanki also uses a corporate credit card to get a little more time to pay some bills. Most cards don’t charge interest if the amount owing is paid off each month.

And he isn’t shy about asking suppliers for better payment terms. “It doesn’t hurt to ask,” Sholanki says. “Don’t just take at face value what you’ve been given. Negotiating is very important. I always do that. Most of the time, people will be flexible.”

“We’re not in a situation where cash flow is tight,” he adds. “But this is just good business practice. If you tighten your cash flow management, you’re not going to find yourself in a situation where cash is tight. That’s why we do it.”







*“We won’t stretch somebody out. But I don’t pay before I have to pay.”*

ROGER SHOLANKI | CEO | Book4Time

## 5 tips for controlling expenses

Maintaining control over both fixed and variable expenses is an essential part of maximizing cash flow and profits in your business.

Here are some tactics you can use to rein in expenses, increase your *average days payable* (the number of days it takes you, on average, to pay your bills) and prepare for unforeseen costs that crop up over the course of the year.

1

### Manage variable costs

Look at your company’s past variable expenses and calculate what percentage of sales they represent. Historic percentages provide both a good indicator of potential future costs and a benchmark to use in keeping those costs in line with selling activity.

2

### Focus on fixed costs

People tend to become complacent about fixed costs, such as insurance and maintenance contracts, because they are generally recurrent and often reflect longstanding relationships



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with suppliers. Besides asking for better terms from suppliers, you should also periodically test the market to see whether you can get a better deal from competing companies.

It's good practice to get two or three quotes regularly, by putting out a request for proposal (RFP) or using a less formal method. It's important to watch your costs and be seen to be watching your costs.

### **3 Offer to pay more**

In some cases, you also may find it worthwhile to offer to pay your suppliers slightly more (e.g., 1%) if they let you stretch payments by, for example, letting you pay in 60 days, instead of 30. Your suppliers win by earning more, while you can use the extra cash to reduce your use of your line of credit and/or generate more sales.

Conversely, some suppliers offer a discount to customers willing to pay quickly. These discounts can produce surprisingly large returns on your capital. For example, you could earn what works out to be a 37% annual effective interest rate if you receive a 2% discount for paying an invoice within 10 days, rather than paying the full amount in 30 days. With that kind of a return, it can make sense to use your extra cash or borrow money to take advantage of such discounts.

### **4 Invest in technology**

Explore technology that may help your business improve efficiency, increase productivity or reduce costs. For example, many companies are now using cloud computing systems rather than in-house systems that can be relatively expensive to buy and maintain.

### **5 Give incentives to staff**

Make people accountable for costs and establish appropriate rewards for employees who find ways to reduce expenses. This helps to create a zero-waste culture within your organization. It also helps motivate staff members charged with reducing expenses to stay on task and be creative.





# TAKE CONTROL OF INVENTORY MANAGEMENT

Holding too much inventory can take a large bite out of cash flow. However, you don't want to keep so little inventory that you run out of products or can't deliver on time. Finding the right balance is called inventory optimization.

This was one of the challenges Yan Bariteau faced at his company, FIG Clothing, a women's travel wear firm in Montreal.

With huge sales growth (sales quintupled from 2010 to 2012), Bariteau typically kept a buffer supply of 15% extra stock on top of what his clients had ordered, to deal with repeat business and extra sales.

## Inventory strategy backfires

The strategy backfired in 2013 when poor weather caused a sudden drop in sales, leading to surplus inventory. "It's not easy to sell skirts and dresses when it's raining every day," he says.

Bariteau's retail partners, facing the same problem, fell behind in paying their bills. His cash flow then took another hit when orders for his fall 2013 line went up 75%. Bariteau had to liquidate much of the unsold inventory at a large discount to raise cash.

"We learned a lot from our experience," he says. He freed up cash by reducing his buffer stock level from 15% to between 10 and 12%. "Not having enough stock is not ideal, but it's not the end of the world, either. We can always repeat the same style the next season."



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## Get back on track

Another innovation: Bariteau uses just one type of fabric for each of his clothing collections and makes sure he has a buffer supply of the material. “When sales start, we see right away which items we need more of, and we can make them quickly and use just-in-time inventory,” he says.

One ace up Bariteau’s sleeve is that his manufacturing is all done in Canada, not Asia. This gives him a much shorter lead time between orders and delivery, allowing for a quicker response to demand changes.



*“We see right away which items we need more of, and we can make them quickly and use just-in-time inventory.”*

YAN BARITEAU | President | FIG Clothing

## 6 tips to optimize inventory management

Here are tips to decrease your *days inventory outstanding* (average time products stay in inventory) and improve inventory turnover while minimizing impacts on sales.

### Coordinate different types of inventory

Businesses often manage different types of inventory in separate departments. Coordinating the various types of inventory (raw materials, work in progress, finished goods) can improve inventory optimization.



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## **2 Plan for changes in demand and volatility**

If your company has seasonal highs and lows in demand, you probably try to optimize inventory levels to meet your demand cycle. However, don't forget that the demand cycle can affect not only the volume of orders but also their volatility.

For example, a restaurant may have a huge range of \$100,000 to \$300,000 in monthly sales during its summer high season, but a much smaller variation of \$50,000 to \$60,000 in the slow season. Inventory levels should take into account cycles in both demand and volatility—for example, you may want to increase buffer stock when volatility is higher.

## **3 Optimize for different customers**

Your customers may have different expectations in terms of service levels and lead times. Weigh all of these factors when setting inventory levels. You should be up front with customers about how you manage inventory and your lead-time requirements to meet their orders.

## **4 Work to build strong supplier relationships**

The goal is to work with companies you can rely on to deliver on time and go the extra mile to meet a tight schedule.

## **5 Consider technology**

Think about buying inventory management software, which has tools to help you forecast demand, compress your order-to-delivery cycle and optimize buffer stock levels.

## **6 Dump losing products**

Speed up inventory turnover by analyzing each product line and dumping products that lose money.





## A STRONGER BUSINESS

Cash flow management is an essential practice for entrepreneurs. It can smooth financial ups and downs and reduce the risk of a cash squeeze that can derail even a profitable company.

It helps you understand your financing needs. And it may help boost your bottom line—for example, by freeing up money you can then use to grow.

Focusing on better cash flow management helped Mike Whittaker's Bonté Foods in Dieppe, New Brunswick, come back from the brink of financial disaster and become a stronger business.

Cash flow projections are an irreplaceable tool for Matt Rendall at Clearpath Robotics in Kitchener, Ontario, to help smooth the peaks and valleys in his revenues.

And in Whitehorse, Yukon, Wendy Tayler's Alkan Air uses electronic billing to accelerate cash flow, saving time and headaches for her accounting department.

Tighter cash flow management can make your business stronger, too.

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