

# The Management REPORT

## Why Cash Management is Good for You

*The new Management Report will become a regular column in TYR, looking at the importance of the management role and the relevant issues surrounding management as a whole. Bransom Bean, from Fine Focus Ltd, is the column's writer who works as a Management Consultant and Mariner helping people and businesses identify and achieve their goals specialising in the superyacht market.*

**W**HAT is the most common cause of business failure? The number one reason is CASH, or actually the lack of it, when you need it. It's caused by failing to plan and manage. Cash/cash flow is the lifeblood of any business. Thankfully, the basics of cash management are universal, applying to the major shipyard, the cabinetmaker or the yacht master.

Before we begin, a quick test:

- How much cash do I have now?
- How much cash do I need and when?
- Who owes me money and why haven't they paid?

Times up! Needed more than three minutes to answer? You may soon learn about cash management, the hard way. Ironically, profitable businesses can fail for lack of cash – a company with spiralling revenues, bankrupt just after the party celebrating that new contract.

### What is Cash?

Even dictionaries have problems defining cash. Here's what I found on the net for 'cash':

"An asset on the balance sheet comprising cash on hand, paper currency, coins, bank balances, negotiable money orders and cheques."

"American country and western singer and songwriter best known for his songs about poverty and the downtrodden, including Folsom Prison Blues."

"Money or currency that is readily available for use."

The last one is the most useful. We could go into esoteric discussions full of MBA jargon, but if you can't

use it to fund this week's payroll, it's not cash; and neither are sales nor profits, for that matter.

### Another Definition – Units of Commerce

Whether you run a Fortune 500 company, are a sole proprietor or the master of a superyacht, you are the manager of a 'Unit of Commerce' which really performs just three basic functions:

1. Imports goods/services – INPUT
2. Changes them – CONVERSION
3. Sells them – OUTPUT

These in turn result in POTENTIAL cash flows which must be managed:

*Cash Out:* The imported goods/services were either:

1. Paid for in advance
2. Paid for on receipt/delivery or
3. Will be paid in accordance with some agreed form of credit or credit period.

*Cash In:* Those sold were either:

1. Paid for in advance
2. Paid for on receipt of delivery or
3. Will be paid in accordance with some agreed form of credit or credit period.

Numbers 1, 2 and 3 are credit terms and are negotiable.

In the middle, you have the on-going business expenses, of which the most inflexible is the payroll (unless, of course, you're a sole proprietorship, where often the payroll is more flexible than you'd like).

### Definition – Cash Management

Cash management then is a balancing act, establishing and maintaining the equilibrium of the flow of cash in and out, maintaining as much flexibility for those unpleasant uncertainties as possible. To do that, you must:

1. Know how much cash you have – daily
2. Budget the amount and timing of payments you make
3. Know how much money is due – daily

Sound simple so far? Well sadly, here's where you can become vulnerable very quickly unless you adopt a rigid discipline of monitoring daily – yes DAILY – payments received and chase those which aren't.

The vital bit is the interpretation of information about payments received and owed and then taking action. This will require decisions by someone who understands coldly



the requirement for cash – again it's lifeblood we're talking about here, SO BE RUTHLESS. By the way, if you're taking over an existing operation, cash is the first place to look.

## Start Every Day With A Little Cash Introspection

If you're a yacht master, next time you're chatting with the Boss, see what they say to this. Most successful business people start their day by determining their cash position. Before e-mails or reading the FT, they check cash – themselves – first thing. If they don't now, they did when they started and now they have someone very dependable who does it for them.

Try it. It may depress you, but at least you'll know where you are.

## Who's Cash Is It Anyway?

Yours, actually, so daily, find out who owes you money and what specifically is being done about it. Make a list and see that it is updated constantly. Review it line by line. The list should show the every debtor, how much they owe and all of their outstanding invoices. Most importantly, if you have a collection person, there should be a note of everything that has ever been done to collect it. Look carefully at the changes in status – whom they've called and when. Are they being chased? How? "They said they'd post it," just isn't good enough. Instead try questions like, "When did you confirm that?" and "Tell me exactly why you no longer wish to work here."

It takes a special person to do this job even though there's software to help. When you're chasing these up you will become a connoisseur of 'excuses'. Feel free to share the better ones with me. One of the worst ones to hear is that the invoice was incorrect. Don't give them this excuse – they should come up with their own.

## A Little Paranoia Goes A Long Way

The easiest form of credit is simply not paying, sometimes called 'floating' – the non-nautical kind. The big guys are the worst. I recall a British Cabinet minister getting in a bit of bother some years ago.

*Remember, you can actually earn better credit terms by disciplining yourself to conform strictly to those agreed. As the trust builds, so does the likelihood of your terms being extended.*

A successful businessman, he commented unashamedly that when he started out, he delayed paying everyone who allowed him – which also says something about his public relations 'skills'.

It breaks the heart of most sales managers; however, customers who don't pay should be on a 'stop list' as 'bad payers' until you've successfully persuaded them to pay up, at which time you review/tighten the credit terms. Your sales person may want to sell, they may want to buy, but first, they pay. The bad news is that when people get in the habit of not paying you, eventually they decide they don't have to pay at all. They need discipline as well.

Help your customers pay by having a clear understanding up front of what you expect, deliver what you promised on time, bill promptly and accurately, provide incentives for paying early and chase immediately when they're late. On long-term projects, keep a wary and subjective eye out, especially if you're small and at the bottom of the cash feeding chain. Agree a payment schedule up front, deliver on time and if possible get a deposit up front. Hold back a 'key' until you're finally paid in full.

## Your Suppliers – It Works Both Ways

Do you try to establish terms of credit with suppliers or just take what is offered? Even a two-day extension can make a huge difference over a year. Ask and show them why you can be trusted. They'll be looking at things like character, capacity to repay, capital, collateral and conditions. It's really down to trust.

Remember, you can actually earn better credit terms by disciplining yourself to conform strictly to those agreed. As the trust builds, so does the likelihood of your terms being extended. So don't let someone in accounting pay them late.

## It's A Team Thing

Cash management is a team effort that must pervade your entire organisation. Remember, cash is the lifeblood. Time spent explaining the effects of good cash-management to the ordinary, decent employee will be well repaid.

## Rocket Science It's Not

I talked with David Morgan of Crowe Morgan in the Isle of Man who watches over my little business and knows a bit about super-yachts as well. He said, "Many businesses have hardly any financial planning. Monitoring cash is easy and gives all the signs of success or failure."

Thankfully, good cash management requires that only a few simple tenets be observed:

1. The need for cash to enable the business to replenish goods and services it requires to survive.
2. The essential observance of discipline in dealing with suppliers and customers.
3. On-going publication to select individuals of the immediate cash position and the highlighting of 'bad payers'.

## Long-Term Cash Planning

For those who hate discipline, the budgeting and tracking of cash will come as yet another business disappointment, albeit not as bad as bankruptcy. There's really not space to cover it here but your year's cash projection, properly prepared, will show when cash is going to be tight and when cash deserves watching – or a larger overdraft/credit line. A budget to actual variance analysis should be part of every month's accounts and the variances studied. Unlike your other budgets, this one SHOULD be adjusted reflecting expectations, on sales particularly.

## The Bottom Line

Good cash management is the discipline of knowing constantly what you have, who owes you and what you need. Of course, you must produce something, sell and market it. You might even 'define your brand', 'compose a position statement' and 'your marketing mix'. But always remember all of that's just jargon if you don't get paid.

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