

# Understanding Cash Management and Profit Improvement

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Beth Damis, MBA

Director of Finance & Human Resources Penny Arcade, Inc

<https://www.linkedin.com/in/bethdamis/>

<https://twitter.com/BethDamis>

### Penny-Arcade.com

**Large-scale gaming conventions known as PAX (Paxsite.com)**

- Wholesale and Retail tangible goods
  - Books
  - Games
- Warehouse fulfillment
  - Royalties
  - Ad Revenue

### ChildsPlayCharity.org

**Impacting the lives of children in hospitals and shelters worldwide**

- Our Grants support
  - Games & technology
  - Child Life specialist staff salaries
  - Cutting-edge research

Raised over 45 million to date

Financial Statements

Income  
Statement

or

Profit & Loss

- Revenue
- Less Cost of Goods Sold
- Equals Profit Margin
- Less Operating Costs
- Equals Net Income/Loss

## Financial Statements

# Balance Sheet

$$A = L + E$$

- Assets
  - Bank accounts
  - Accounts Receivable (A/R)
  - Inventory
  - Furniture and Fixtures
  - Leasehold Improvements
  - Prepaid Expenses
- Liabilities
  - Accounts Payable (A/P)
  - Credit Cards
  - Sales Taxes
  - Long term loans
- Equity
  - Retained Earnings
  - Distributions/Draws
  - Sales Taxes

# Accounting Basis

- ▶ Accrual
  - ▶ Real Time Accounting
  - ▶ Revenue & Expenses recorded as incurred
  - ▶ Matches Revenue & Costs in the proper period
  - ▶ Revenue – Sales Receipts, Invoices
  - ▶ Expenses – Bills, Accruals (payroll)
- ▶ Cash
  - ▶ Arbitrary Accounting, could result in a month with zero transactions.
  - ▶ Revenue & Expenses recorded as cash moves
  - ▶ Reports reflect a disconnect between Revenue & Costs

# What Is Cash Flow ?

Hint: It is NOT Profit

## Cash flowing in :

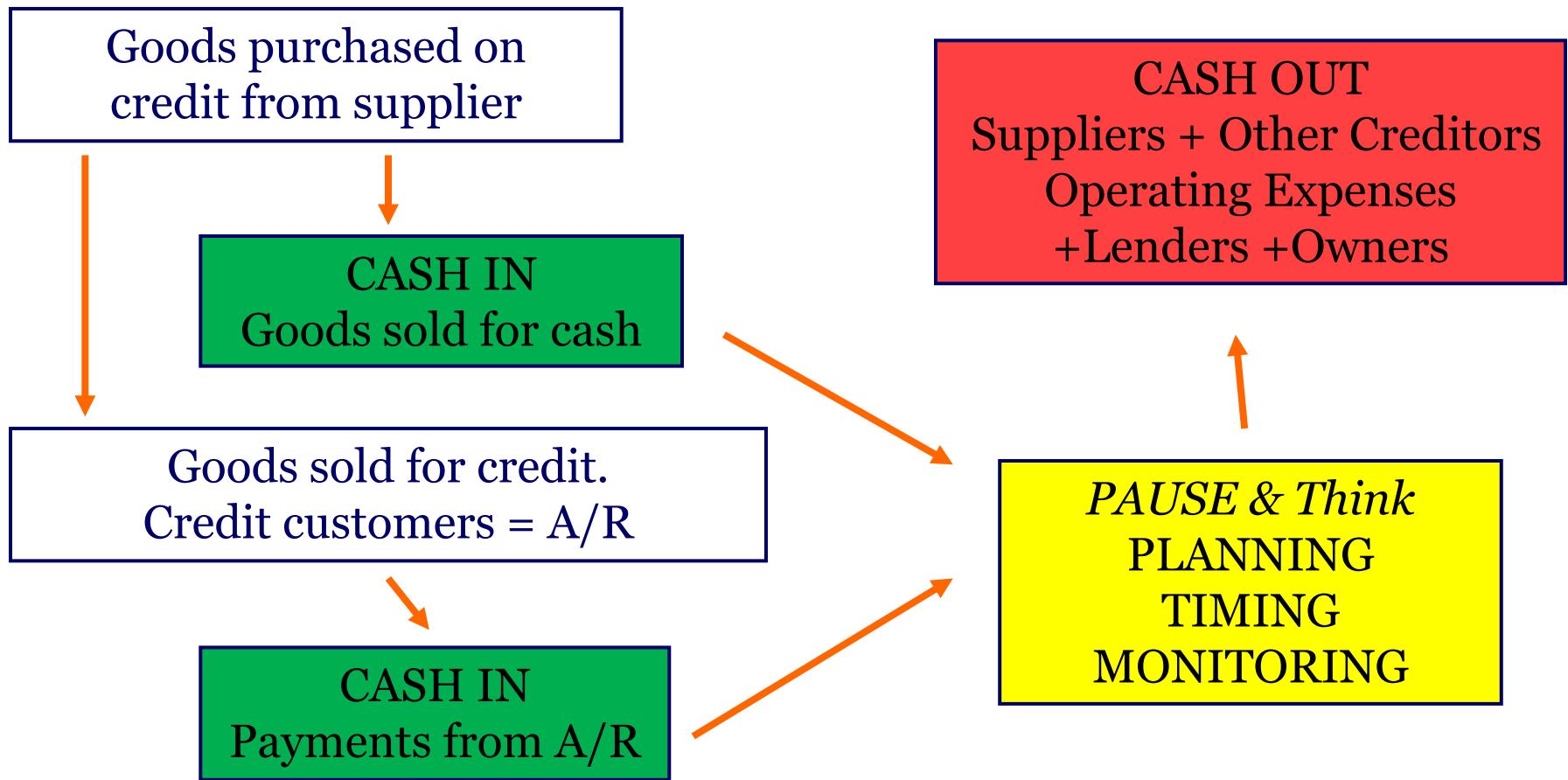
- Sales Receipts
- Customers paid A/R
- Borrowings
- Capital introduced
- Sale of equipment

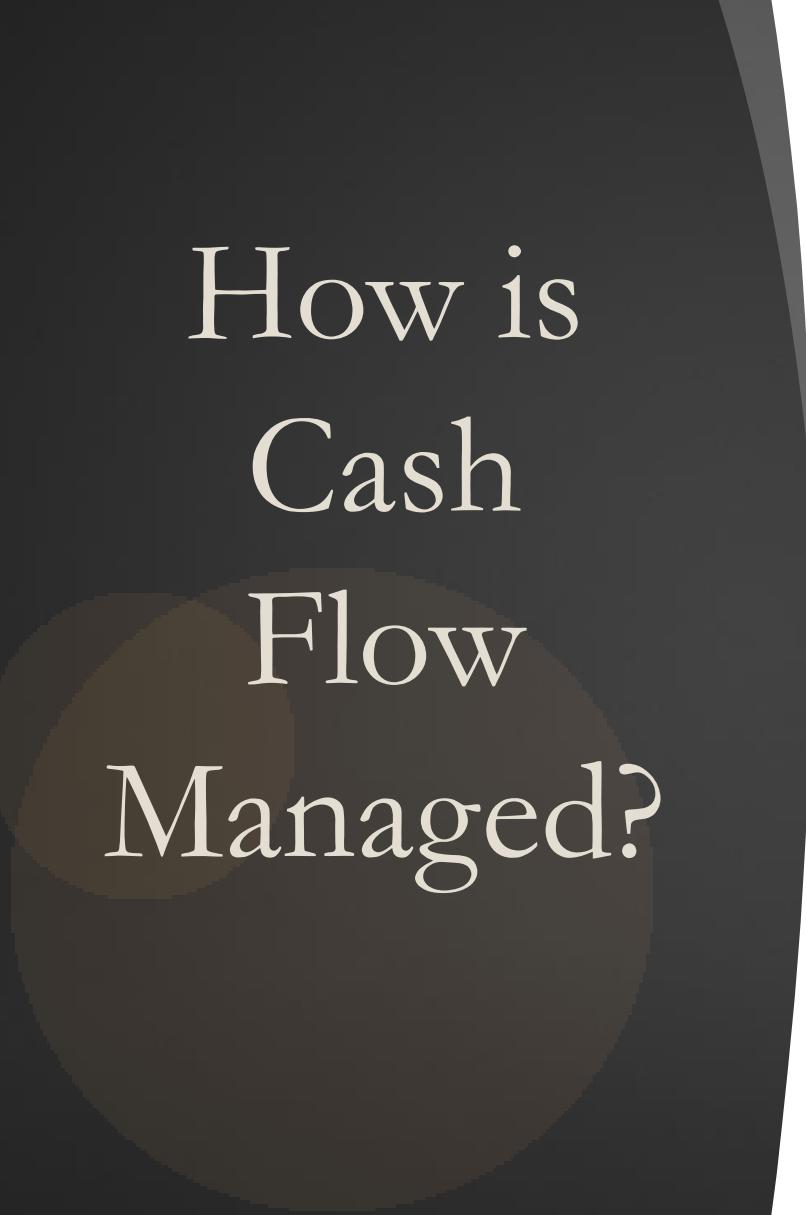
## Less Cash flowing out:

- Operating expenses
- Inventory
- Equipment purchases
- Loan repayments
- Distribution to owner.

**EQUALS : \$\$\$\$ on Hand**

# Basic Cash Flow Cycle





How is  
Cash  
Flow  
Managed?



Planning  
Timing  
Monitor  
  
(Emergency)  
Backup

# How is Cash Flow Managed? Planning via Budgeting & Forecasting

Can be completed for any term: daily (Disney), weekly, monthly, quarterly, annually, for the next 5-10 years. I like annual reports on a monthly basis.

How will you meet demand?

How will you pay your bills?

Where are your fluctuations?

What changes do you expect?

What is important for your specific situation?

There are many methods – we will look at one basic method.

# Planning with an Accrual Based Budget

## Sales Forecast

Expected number of sales

Expected dollar value of sales

Expected Cost of Sales

## Expected Profit Margin on Sales

Provides the \$ available for operating expenses

## Plan to meet Operating Costs

### Expected Profit Margin on Sales

Fixed Costs

- Rent
- Insurance
- Marketing

Variable Costs

- Payroll
- Utilities
- Travel

## Budget to meet sales & support operations

Expected Revenue

Less COGS

Less Operating Costs

Expected Net Income

# Planning with an Accrual Based Budget

## Budget to meet sales & support operations

What if the Expected Net Income is not what we want?

**Too High?** You may have other costs that you can add in: Depreciation, Prepaid Expenses. Might be a good year to buy Equipment you need next year.

**Too Low?** Re-evaluate any expenses & your sales forecast

## New Plan to meet Operating Costs

### Expected Profit Margin on Sales

#### Fixed Costs

- Rent
- Insurance
- Marketing

#### Variable Costs

- Payroll
- Utilities
- No Travel 2019

## Sales Forecast

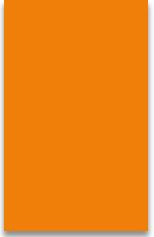
Increase prices

Increase visibility

Increase sales

Decrease cost of goods

Decrease inventory levels



YAY you have a Budget, now  
what?

Is that a Cash Plan?



How is Cash Flow Managed?  
Planning via  
Budgeting & Forecasting

# Planning with a Cash Forecast (Cash Basis)

## Budget - Accrual Basis

- ▶ Plans for when sales actually happen & expenses are actually incurred.
- ▶ Provides better data for trend and ratio reporting - important business decisions can be made.
- ▶ Better reporting to determine budget to actual
- ▶ Does not account for bills currently sitting in A/P or revenues sitting in A/R. Does not account for inventory that is sitting in stock or prepaid expenses.

## Cash Flow Forecast - Cash Basis

- ▶ Plans for when cash is available.
- ▶ Plans for how much cash is available
- ▶ Plans for spikes and drops in cash
- ▶ Provides better data for paying important bills such as taxes, payroll, inventory
- ▶ Includes bills currently sitting in A/P, revenues sitting in A/R., inventory that is sitting in stock and prepaid expenses.
- ▶ Helps with making decisions regarding negotiating terms with vendors and customers.
- ▶ ALL incoming and outgoing monies.

# Planning with a Cash Forecast (Cash Basis)

## Budget - Accrual Basis

- ▶ Expected Revenue
- ▶ Less COGS
- ▶ Less Operating Costs
- ▶ Expected Net Income

## Cash Flow Forecast - Cash Basis

- ▶ Expected Revenue
- ▶ A/R
- ▶ Inventory
- ▶ Prepaid Expenses
- ▶ Less COGS
- ▶ Less Operating Costs
- ▶ Less A/P
- ▶ Less other Payables (loans, ccs)
- ▶ Less owner draws/distributions
- ▶ Expected Cash Balance

# How is Cash Flow Managed?

## Timing

Cash flow should be:

**Positive:**

**Cash Inflows – Cash Outflows = Net Cash Flow**

**Available:**

Sufficient cash flow in liquid assets to meet financial obligations

**Timely:**

Cash Inflows must come in before Outflows are due

# Timing- Speed up receipt of money

- ▶ Invoice FASTER
- ▶ Check your invoicing process, make sure all dollars earned are invoiced
- ▶ Make it super EASY to pay (online apps/credit cards)
- ▶ Offer a discount for early payments
- ▶ Limit the amount of credit offered to customers
- ▶ Vet your customers (especially important in B2B sales)
- ▶ Reduce payment terms from Net 30 to Net 10 or 15
- ▶ Require a retainer or upfront payment
- ▶ Require a percentage of total up front
- ▶ Require portion due based on percent of completion rather than at receipt
- ▶ Offer incentives for upfront payments – extra give
- ▶ Increase business from cash customers or incentives for cash payment
- ▶ Pay attention to you're A/R and follow up on late payments
- ▶ Use a collections app or a collections company when necessary
- ▶ Avoid trade/barter

# Timing- Hold on to money longer

- ▶ Pay SLOWER – not late but establish a regular pay schedule
- ▶ SAVE money- Take advantage of early payment discounts
- ▶ Negotiate longer payment terms from Net 30 to Net 60
- ▶ Negotiate with vendors for higher credit terms
- ▶ Use trade credit cards, lines of credits, loans wisely
- ▶ Check your inventory/supply levels, does your turnover justify the amount on hand?
- ▶ Vet your vendors

# How is Cash Flow Managed?

## Monitor

Budget vs Actual- check your ability to foretell the future, make adjustments.

Are sales on track? What went wrong, what went right?

Are expenses on track? What went wrong, what went right?

What's your new expected net income?

Rolling Cash Forecast- check your ability to foretell the future, make adjustments.

Regardless of your budget is your

Bank Balance

Asset Balance

Liability Balance

In line with what you expected at this point in time?

# Monitor

Do you need to  
increase your  
intake?

## INCREASE PRICES

- Every dollar needed to make the product and the sale should be known.
- Set profit goal to cover operating costs.
- Don't price yourself out of the market

## INCREASE NUMBER OF SALES-

- Expand customer base.
- Sticky customers = repeat sales
- Upsell

## EVALUATE YOUR CUSTOMERS & PRODUCTS

- Profit Margin per customer & product
- PITA customers & PITA products

## SELL OFF EXCESS ASSETS

- Unused furniture and fixtures
- Slow moving inventory

## COLLECT STALE A/R

Collections company or app-Collbox  
Factoring service or app -Bluevine



Do you need to  
decrease your  
spend?

Monitor

## EVALUATE WHAT IS IMPORTANT

- Sales Generators
- Inventory quality
- Marketing
- Unnecessary & duplicate items
- Compliance – don't get behind on taxes!

## BUY WHAT YOU NEED SHORT TERM

- Inventory levels (carrying costs/opportunity costs)
- Office supplies
- Anything that expires

## BUY WHAT YOU NEED LONG TERM

- Travel spend – stop buying last minute
- If you will absolutely use it, buy in bulk at discount- negotiate for a better discount!

## SEEK OTHER METHODS

- Big purchases- check Craigslist (use tax)
- Finance big expenditures to allow better cash planning: equipment, insurance, etc.
- Automation- let people use their brain more (example high volume drop service)

# Cash Flow – Don't be Fooled!

## Monitor!

- ▶ **Businesses can make a profit & have negative cash flow**
  - ▶ Big asset purchase
  - ▶ Repayment of loans
  - ▶ Taking out draws/distributions
  - ▶ Growth phase
- ▶ **Failing businesses can have positive cash flow**
  - ▶ Large asset sales
  - ▶ Withholding payments to vendors
  - ▶ Investing cash

Evaluate both the budget and the cash flow forecast regularly to stay on track.

# Emergency Backup

- ▶ Use the Budget in conjunction with the Cash Flow Forecast to estimate when dips in cash will occur.
- ▶ Update the Budget & Cash Flow Forecast as needed to best make management decisions
- ▶ Ramp up emergency solutions to fill the cash void
  - ▶ Use a collections app or a collections company
  - ▶ Use a factoring app or factoring company
  - ▶ Use credit cards, lines of credits, and loans wisely
  - ▶ Cash infusions from ownership
- ▶ Depending on these resources heavily, long term, or when not meeting your income goals are a sign of an unhealthy business.

# Even Out The Flow of Revenue

- ▶ **Marketing**
  - ▶ Strategized and targeted over time, rather than reactive
  - ▶ On brand and consistent to increase customers' emotional response
  - ▶ Increase marketing prior to historically poor performing periods to remind customers
- ▶ **Pricing structure**
  - ▶ Offer discounts to customers who are willing to wait longer for their product.
  - ▶ Increase prices in high demand periods (increase does not have to be significant to make an impact depending on the volume)
  - ▶ Charge an expedited fee for customers who need their product faster.
  - ▶ Encourage sales in low sales periods by offering a discount on the expedited fee

# How is Cash Flow Managed?

**Planning  
Timing  
Monitor  
(Emergency)  
Backup**

- ✓ Plan for business needs & for business wants.
- ✓ Adjust processes to ensure timing of cash coming in and cash going out to maintain a net cash positive.
- ✓ Monitor the plan and the reality in order to adjust as needed.
- ✓ Change processes as needed to avoid overusing the Emergency Backup Plan.
- ✓ Don't get lost in day to day tasks— pausing & thinking is important and effective.

# Thank you for your participation!!

People who get the most from working with Resilient Business Solutions:

- You want to understand the financial impact of your business decisions.
- You are committed to spending and investing wisely.
- You do not want to grow your company alone.

Contact Audrey for a complimentary **Positioned 4 Profit**  
Discovery Session!

- T 206-579-1063 Skype audrey.l.godwin  
[audrey@resilientbusinessolutions.com](mailto:audrey@resilientbusinessolutions.com)