

MEMORANDUM

TO: Our Referral Partners (First Issues to First Chicago Business Bankers)

FROM: David Schwartz

Dateline Paris, August 22, 1789: Bread Famine takes lives. Queen unmoved

The price of bread rose 88 percent this year, going from 4 sous to 9 sous then to 14.5 sous. Peasant workers made between 12 and 20 sous per day. Peasants had to rely on charity to survive. The 'bread riot' evolved into a central cause of the French Revolution. The famous solution to the bread famine, "If the people have no bread, let them eat cake." is unjustly attributed to the queen, but it is certain Marie Antoinette lacked understanding of economic problems. **The Government ran out of cash.** A revolution ensued and, in 1793, they gave her her head. Businesses have been running out of cash for thousands of years, sparking all kinds of repercussions.



How does cash work in food manufacturing and retail? It is not all about profit! There is always a relationship between Working Capital and Margins. Marrying both creates the opportunity to find strategic, actionable, competitive benefits. In evaluating **Cash Potential**, the conventional Working Capital elements come into play: Accounts Receivable (A/R), Inventory and Accounts Payable (A/P), along with Margins. The Working Capital calculation is $A/R + Inventory - A/P = Working\ Capital$.

Let's explore the cash world of this industry. "Do you know my business?" There are plenty of laws, practices, and jargon unique to all industries such as food and retail. However, the common business goal is to generate cash. In the last 18 months, Jacquard worked with a high-end bakery, a luxury chocolate maker, a flour distributor and other retail and consumer web companies. These companies are *product-centric* versus *project production-centric*. This is an important distinction for a business to make because each brings different Working Capital elements to the forefront.

What makes food manufacturing and retail different? Low Working Capital requirements mean margin flexibility. *For the bakery, in 4 days the money comes in, and takes 17 days to go out.* There is no greater position than **Negative Working Capital** where A/R and Inventory dollars together are less than Accounts Payable ($A/R + Inventory - A/P = \0 or less).

Accounts Receivable and Payable – The bakery's Accounts Receivable is 0 days for retail and 14 days for wholesale. Therefore, the bakery averages 4 days of A/R. The average for A/P is 16.7 days overall.



Employees receive their pay within 14 days. Materials payments average 14 days. (Together 63% of the expenses). The other 17%, insurances, leases and rent, are paid within 30 days.

Generate 12 net days of revenue as cash and **business is fun.**
\$10.5M of revenue generates \$912K of Working Capital cash the first year, unrelated to profits: the beauty of Negative Working Capital!

Where do Margins fit in? The bakery's margin is 29%. This seems high. It is the result of serving the high end of the market. Do you want to serve the rabble or the royalty? If you are serving the highly competitive peasant market, you have commodity pricing fixed by the market, closer to costs. Serve the Queen and price is secondary to reputation, physical beauty and taste. Material costs reflect the market you serve. The range of choices and costs of ingredients is vast. There are dozens of \$10 chocolate bars; they are not competing with a Hershey Bar. Know whom you serve! Our bakery client is more successful with the four star downtown hotels than suburban banquet halls due to the products, reputation and their ability to pay.

Cash Potential is a direct relationship between Working Capital employed and Margin. When you generate cash from low or negative working capital, you have more options on margins to insure your cash goals. You have more alternatives that are competitive. Conversely, having to employ more working capital demands tighter control of margins.

Manufacturing, product or project, distribution, and service businesses all are driven by this relationship. In retail and food manufacturing, the daily turnover of inventory and immediate A/R payments are the true game breakers.

	Wholesale Bread	Retail Bread	Retail 10% discount	Royal Cakes
Current Price	12 Sous	15 Sous	13.5 Sous	90 Sous
Current Revenue	\$1.5M	\$6.5M	\$5.85M	\$2.5M
Cost	\$1.350	\$5.2M	\$5.2M	\$1.0M
Margin	\$150K	\$1.3M	\$650K	\$1.5M
	10%	20%	11%	60%
A/R	\$59	\$0	\$0	\$625*
Inventory	\$0	\$0	\$0	\$10
A/P	\$62	\$238	\$238	\$46
Working Capital	\$3K	\$238K	\$238K	\$671K
Cash	\$153K	\$1.538K	\$888K	\$2171M
Cash per \$ of Revenue	10.2%	23.7%	15.2%	86.8%

**The Queen's Valet throws you a small purse as a deposit*

This chart demonstrates the Negative Working Capital. Why be in the bread business at all? Drop Wholesale? What would happen if wholesale paid in 45 days? How little can you charge the peasants to prevent rioting and screwing up a good thing? Does the Queen have a sister so we can sell more cakes?

You're the Banker / Business Person. How do you bid to the food or other retail industries? These operating questions will help you evaluate the company's performance.

If you have a question about this or you'd like to privately evaluate one of your clients, just call.

Fresh from the fright of the Guillotine, Jacquard Associates needs a new client and a new country.

Your Business Questions

Review with them their view of cash in and cash out.

How do they price?

Do they grant credit?

What are their spoilage or inventory losses? From what?

Are they clear about their market served?

How do they get their customers?

Are these done formally?