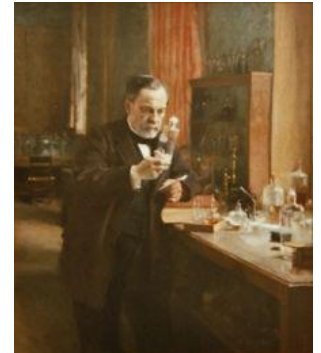


Dateline: Paris 1862. Louis Pasteur discovers the “Cash Cow”

Chemist and biologist Louis Pasteur identified that microorganisms were responsible for spoiling beverages, such as beer, wine and **milk**. He invented the heating process – later known as “pasteurization” – that killed most of the existing bacteria and molds. With pasteurization, *voilà*: retail milk became a great cash generator for businesses.

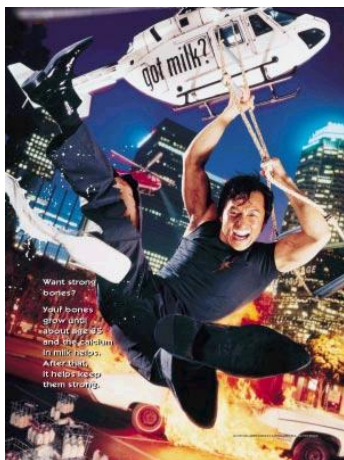


Continuous Generation of Cash should be a key goal of any business.

Retail milk sales offers a perfect example applicable to all types of manufacturers, distributors, retail and service companies. Milk distribution may milk be a low margin business, but its rules for continuous cash generation hold equally true for large and small companies and products and projects.

Cash = profit + improvements in Working Capital. The common surrogate for profit is margin. A key element in Capital Employed is Working Capital (Accounts Receivable plus Inventory less Accounts Payable). How many dollars do you have to invest in working capital to earn your return? How quickly do you regularly collect your return?

Just as with your personal investments, you must ask, “**How much am I going to get out for what I put in?**” That’s your return. In a business, you invest in Working Capital, and your cash generation is your return. (Yes, it’s a bit more complex than that, but let’s stay with the basics for now.)



How does Cash Focus work? *Retail* milk has little margin, but the money retailers earn on the working capital is potentially more important than the profits. In milk sales, accounts receivable and inventory values are less than the accounts payable, creating cash for the retailer.

Velocity measures are crucial to managing businesses. They allow you to measure things relatively. You can compare different products and seasons and spot trends. You also can compare customers.

A/R (*Accounts Receivable*) is measured in days: *How quickly do you collect your money?*

Inventory measures in turns: *The time from receiving it until it leaves your location.*

A/P is measured in Accounts Payable days: *From the time you receive your supplier’s invoice until you pay.*

Every business may have different products, product lines, and customers, but...

This chart may seem like the products of a typical grocery store. But the underlying concept represents every Jacquard Associates distributor, manufacturer or service company.

	Inventory	A/R	A/P	Margin
Milk	3 Days	1 Day	14 Days	7%
Cereal	14 Days	1 Day	14 Days	11%
Cleanser	28 Days	1 Day	21 Day	20%
Nail Polish	40 Days	1 Day	30 Day	25%

The return on working capital is very different than profit

While milk margins are substantially lower than other products and the profits on others seem attractive, the Working Capital requirement can be negative. Increases in sales generate immediate cash. The store is earning interest on cash deposited or it can be used elsewhere. Revenue expansion becomes easier because it requires no cash. Gaining shares by lowering price is still rewarding.

Per \$100,000 in sales	Inventory	A/R	A/P	WC	Profit
Milk	\$ 707	\$ 274	\$ 3,299	\$ (2,318)	\$ 6,300
Cereal	\$ 3,490	\$ 274	\$ 3,107	\$ 658	\$ 9,900
Cleanser	\$ 5,753	\$ 274	\$ 4,315	\$ 1,712	\$ 18,000
Nail Polish	\$ 4,384	\$ 274	\$ 4,932	\$ (274)	\$ 22,500

Great news! Balancing working capital needs with margin offers more competitive strategies.

Your practices, definitions, and numbers will be different, but the rules apply the same for distributors, retailers, manufacturers and service companies.

Staying with the grocery analogy. You could make some dough with bread. On-site bakeries have the highest margin in stores. (See <http://www.jacquard.com/cash-through-history/> “Dateline Paris”.) Bakeries also have fast inventory turns, even faster than milk. Their negative is loss of freshness after one or two days.

But let’s come Clean(ser) instead. Say the Milk Buyer and the Cleanser Buyer are competing for the next promotion. As the graph demonstrates, the financial performance is decidedly different. What could the Cleanser Buyer do to improve the performance?

Lower price to gain revenues. Depending how people buy, it may sell more and move inventory faster.

	Inventory	A/R	A/P	WC	Profit
Milk	\$ 707	\$ 274	\$ 3,299	\$ (2,318)	\$ 6,300
Cleanser	\$ 6,749	\$ 284	\$ 5,624	\$ 1,408	\$ 18,000

Raise price. May not reduce cleanser sales.

Cleanser	\$ 6,329	\$ 274	\$ 4,315	\$ 2,288	\$ 31,500
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Go on consignment. Pay the supplier only when you sell the product to free cash and improve working capital.

Cleanser	\$ 210	\$ 284	\$ 268	\$ 225	\$ 22,500
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Lower the cost. Require the supplier to give you a better price.

Cleanser	\$ 5,178	\$ 274	\$ 4,466	\$ 986	\$ 29,250
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In conclusion

Thank you, Louis, patron saint of grocery store owners (really)!

History is full of courageous people who said, “Let’s try this,” even when it wasn’t easy.