

Dateline 3300BCE: Cash Through History® Overview

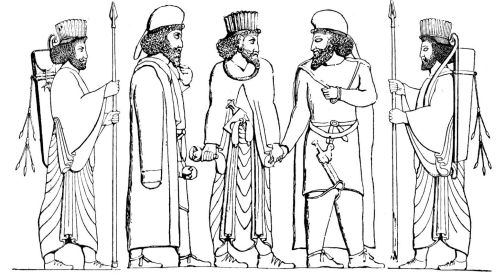
Eavesdropping on Mesopotamian Glass Manufacturing Owners:

Dinner 1 - *How is business?* Great, Revenues are way up!

Dinner 2 - *How is business?* Great, Revenues are up, my accountant says we are profitable!

Dinner 3 - *How is business?* You're going to have to buy, I don't have cash.

The first glass manufacturing and trading is credited to the Mesopotamians over 5000 years ago, this was also the first business opportunity to mistake profit as the business driver, versus the true idol – *cash*.



Continuous Generation of Cash is the primary goal of all businesses. Of course revenue growth and profit are important, however, they are means to the purpose of business: **Cash!** Throughout history business people have mistaken revenue increases for sustainable success. **Success is always the balance of profits and cash management.** There have been growing profitable businesses that have failed, and long term marginally-profitable ones that have flourished. This reality applies to all types of business manufacturers, distributors, retail and service companies. It is the same for large and small companies selling products or projects.

Cash Through History® is a series of fractured historic anecdotes that illustrate the successes and failures associated with the relationship of profit to working capital. *Cash Through History* crosses all businesses and industries over the span of time. While all businesses have unique elements; jargon, trade practices and competitors, they **all must earn cash**. There are important truths in each of these stories and historically they're correct. You can find the entire collection at www.jacquard.com/cash-through-history/.

Some lessons are positive, some negative. All demonstrate the management of companies for cash versus pure profit. Actually, they are adaptations of Jacquard Associates clients. In 20 years we have had over 150 intimate company assignments within all types of industries of manufacturing, distribution, service, retail and not-for-profit. In each story there are ideas, strategies, tactics and graphic representations to improve cash flows. On a regular basis there will be overview sections on how to adapt. In this series we focus on what can be easily understood and changed.

How does Cash Focus work? Exactly like your personal investments. The question: how much cash are you going to get out for what you put in? Call that your return. In a business, you invest in Working Capital (Accounts Receivable plus Inventory less Accounts Payable.) Your cash generation is your return. While there is more involved, this is the core. *Cash Through History* stories provide you with basic financial models and ideas to look for when developing your plans.

Cash generation is profit plus improvement in working capital. The common surrogate for profit is margin. A Working Capital is Accounts Receivable plus Inventory less Accounts Payable. Where does parentheses start?. How many \$ do you have to put in working capital to get your return? How quickly do you regularly collect your return?



In Marie Antoinette we showed how bakers were able to have very limited Receivables and only a day or two of inventory. Their ability to raise or lower price had less effect on their return.



In Pisa 1 & 2 we showed that despite negotiated profits, the flow of Cash In vs. Cash Out was enough to break the company.

This is not what we were taught!

Results through people and processes

Why have we not focused on this approach? Is this counterintuitive or wrong? It is not wrong and some big companies were built on the principle, three of the most famous being GE, IIT and DuPont. It has been the principle theory of Japanese business for 100 years. You will see later the connection between Japanese Lean Production successes and cash management.

How did this happen? You might not have been trained in one of the three companies or Japan. Business people have been trained over time to believe in revenue and profit with little attention paid to cash generation. No one sets out to sink money into a business; rather they are sucked in by the everyday focus of business. There is no time to step back, and there are few people to help you spot trends and structural problems that are not obvious in the work we do daily.

Great News! It is not too late! Balancing Working Capital requirements with Profits and Margin creates more strategies than your competitors. It is not likely they are focusing on this approach as well. Simply put, the less money you have invested in Working Capital, the easier it is to accept less margin (or lower prices). Your Return does not go down nearly as much **and may actually go up.**

Consider a basic rule – Do not enter price negotiations without including payment and inventory “terms”
The easiest change you can make is requiring them to actually pay you on the schedule you agreed to. The vast majority of customers slip payment past the due date. Collecting money faster reduces your Working Capital and may eliminate the pricing effect on your return. This is before you ask for better terms or require payments or any of 15 other ideas commonly used.

Do you maintain Inventories for customers? Can you agree to lower them, thereby reducing your investment in Working Capital? Winning competitors make sure they compromise by using both Working Capital and Margins. Just lowering price is not a sustainable strategy!

A Word about Velocity. The Working Capital elements all have velocity measures which makes management much easier. These measures are relative to the amount of business you are doing, easy to measure, and highlight trends.

Six Basic Cash Flow Techniques

1. Don't negotiate price without improving terms
2. Add Working Capital measurements to your financial reviews
3. Learn something about Lean (it applies to more than factories). It will be a great tool for Velocity and increased cash flow and profit
4. Keep up with the *Cash Through History* series
5. Use the many tools available on www.jacquard.com. Look at our WONDERMENTS®, Client Overviews, Profit Projects™. Read them for ideas and stimulation
6. Keep in mind what sunk the Mesopotamians. The other three men in the picture acted to prevent change. They were most famous for saying: “That can't be done! The Sumerians don't know our business.”