

## Survive and Thrive Workshop Series

How do I manage my Cash Flow?  
19 March 2009

Please remember to call in for  
audio at 1-866-740-1260 code  
3087602



## Workshop Series Hosts

- South Dakota Small Business Development Centers (SD SBDC)
- US Small Business Administration (SBA)
- University of South Dakota
- Regional Planning Districts & other Economic Development entities



## Workshop Series Dates

- How do I manage and improve my cash flow? (19 March)
- Should I have a succession plan in place? (26 March)



## Ready Talk Seminar

- For those at host locations, please sign in; for those on individual lines, you have already registered with the SBA
- Please note of any questions that you may wish to ask. These will be collected at the host locations, sent via Ready Talk Chat or can be sent directly to [jean.rogers@sba.gov](mailto:jean.rogers@sba.gov)
- The presentation materials are available to download at [www.sba.gov/sd](http://www.sba.gov/sd) This site also lists the contact info for host sites throughout South Dakota

## Workshop Goals

Improve the viability of your business during this time of economic uncertainty by providing you insight as to your current position and empowering you to make financial and management decisions to increase the likelihood of survival



## Session Outline

- Refresh of Financial Ratios having direct bearing on cash flow
- Commercial Banking options to bridge shortfalls in cash flow
- Changes in SBA programs to improve access to capital
- Other options to assist in cash flow

## Session Outline

- Financial Ratios that have the strongest correlation to improving cash flow:
  - **Days Receivable** - can I tighten this up to provide a short term infusion of cash flow?
  - **Days Payable** - can I take advantage of vendor terms without jeopardizing early payment discounts?
  - **Days Inventory** - can I reduce the amount of inventory I carry relative to my sales to provide a short term infusion of cash flow?

## Days Receivable

- Measure of how many days worth of sales you have tied up in Accounts Receivable on your balance sheet.
- The greater the number, the longer the collection cycle
  - Ties up cash flow
  - Risk of uncollectable
  - Think of this as an interest free loan to your customer if you do not charge a penalty
- The Ratio can vary at different times of the year if you have high degrees of seasonality. If so, compare to prior year, same month

## Days Receivable

$$\text{Ratio: } \frac{\$ \text{ Accounts Receivable}}{(\text{Annual Sales} / 365)}$$

Accounts Receivable from Balance Sheet. Annual Sales from Income Statement

Lets say our company in slide 13 has \$5,000 in Accounts Receivable

$$\frac{\$5,000}{(\$100,000/365)} = \frac{\$5,000}{\$273.97} = 18.3 \text{ Days}$$

Ratio High? Could be customers are falling behind, increasing risk

Ratio Low? Perhaps industry offers longer terms; may reduce customer base if they are seeking longer terms

Need to also look at my "Accounts Receivable Aging" report to ensure all customers are within compliant range

## Days Payable

- Measure of how many days worth of Accounts Payable are on your books as a liability.
- Typically measured using annual figures
- Somewhat subject to seasonal fluctuations link to inventory

$$\text{Ratio } \frac{\text{Accounts Payable Balance}}{(\text{Annual Cost of Goods Sold} / 365)}$$

Accounts Payable from Balance Sheet.  
COGS from Income Statement

## Days Payable

$$\text{Ratio: } \frac{\$ \text{ Accounts Payable}}{(\text{Annual Cost of Goods Sold} / 365)}$$

Lets say our company in slide 13 has \$4,000 in Accounts Payable

$$\frac{\$4,000}{(\$48,000 / 365)} = \frac{\$4,000}{\$131.51} = 30.4 \text{ Days Payable}$$

Ratio High? Could be a sign of trouble that you are not able to pay vendors and risk relationship.

Ratio Low? Could be that you are taking advantage of early payment discounts

## Days Inventory

- Measure of inventory held relative to inventory used
- Typically measured using annual figures
- Somewhat subject to seasonal fluctuations

$$\text{Ratio: } \frac{\$ \text{ Inventory}}{(\text{Annual Cost of Goods Sold} / 365)}$$

Inventory figure taken from Balance Sheet.  
COGS taken from Income Statement

## Days Inventory

Ratio: 
$$\frac{\$ \text{ Inventory}}{(\text{Annual Cost of Goods Sold} / 365)}$$

Lets say our company in slide 13 holds \$8,000 in inventory

$$\frac{\$8,000}{(\$48,000 / 365)} = \frac{\$8,000}{\$131.51} = 60.8 \text{ Days Inv.}$$

Ratio High? Could be sign of too much inventory, old stock, low turnover

Ratio Low? Good for cash flow as long as minimizing risk of shortage and lost sales

## Commercial Lending Options

Ryan Dulaney & Pam Hanneman  
Commercial Loan Officers  
Wells Fargo Bank

**WELLS  
FARGO**

## SBA Lending

- Current SBA loan programs
  - Temporary elimination of SBA loan fees
  - 75% to 85% insurance rate now increased to 90%
- The SBA is finalizing details on a new program which was passed by Congress and signed into law by the President
  - Loan will allow creditworthy businesses to borrow funds to cover existing debt payments (up to 6 months of payments, not to exceed \$35K)
  - No payments until 12 months after final distribution
  - Repayment up to 5 years
  - 100% insurance provided to the bank by the SBA
  - Cannot be used on current SBA loans



## Factoring for Cash Flow

LaDonna Tonak  
Controller  
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## What is

## Factoring??

The business of purchasing and collecting accounts receivable or of advancing cash on the basis of accounts receivable

## Factor

- A financial firm that purchases at a discount the accounts receivable of other firms and assumes the risks and responsibilities of collection.
- A business organization that lends money on accounts receivable or buys and collects accounts receivable.

## Advantages of Factoring

- Does not create a debt
- Produces cash in 24-48 hours
- Fewer restrictions than bank loans
- Eliminates the need for in-house collections department

*Why should I factor?*

## How Factoring Works

- Credit based on billed customer
- Advance of 70% to 90% of invoice amount
- When the bill is paid, balance remitted to you less transaction fee

## Recourse Factoring

- The right to demand payment from the endorser of a commercial paper when the first party liable fails to pay
- Have the right to demand payment from you when the billed customer fails to pay

## Non-Recourse Factoring

- of, relating to, or being a debt whose satisfaction may be obtained on default only out of the particular collateral given
- ~~Do not~~ have the right to demand payment from other assets you when the billed customer fails to pay

## Future Workshop Topics

- After each session, participants will be provided an opportunity for feedback through surveys. Based on survey results, future workshops may be developed to delve into greater detail in specific areas (i.e. factoring, Government Procurement, etc).



## We Want Your Feedback!

- Please provide your feedback in the survey at your host site, or which will be sent to the email address that you provided. This will allow us to tailor upcoming events to best suit your needs!



*Final Session:*

Planning for Succession,  
Financial Planning and  
Business Valuation

26 March 2009

Contact Jean Rogers to register  
(605) 330-4243 ext 0  
jean.rogers@sba.gov



## Resources Available

- For a copy of this slideshow
  - [www.sba.gov/sd](http://www.sba.gov/sd)
- Free Excel compatible software
  - [www.openoffice.org](http://www.openoffice.org)
- For additional training and education, visit the SBA Resource Library
  - [www.sba.gov/tools/resourcelibrary/index.html](http://www.sba.gov/tools/resourcelibrary/index.html)
  - (features Podcasts, Publications and Research)