

How to hold on to your cash

by Claude Solnik

Published: January 12th, 2009



When a Long Island-based cooking equipment maker found itself short on cash, the firm wanted to make some quick sales. So the company did what any manufacturer might do: It offered deep discounts and extended payment terms on bulk purchases to its biggest customers.

Will the company lose money on the deal? Possibly. But the goal isn't simply to make money; the objective is to save the company by increasing cash on hand. If the firm has to turn the order into quick cash, it stands ready to tap a factor – a company that will pay for the receivables in exchange for a 20 percent return.

"At a time like this, sometimes you have to bite the bullet," said Mitchell Zachary, a partner at the Fuoco Group, an accounting firm in Hauppauge, who advised the cooking equipment maker. "If you have to take a lot less than you were expecting to get, evaluate that decision and act. You might take a little bit of a hit, but you'll clean up your balance sheet tremendously."

While the economy has been in recession for at least a year, cash flow problems are coming to a head for many firms. A dismal December, difficulty borrowing and payment delays are forcing companies to look beyond short-term gain to long-term survival.

"We're seeing more cash flow problems," said Al Materazo, partner at Margolin, Winer & Evens in Garden City. "A lot of industries have been hit."

Kurt Kiess, a partner at Manhattan-based Marks Paneth & Shron with Woodbury offices, said declining consumer spending is leading to across-the-board cash crunches.

"When your sales are down, that generates a cash flow issue right away," Kiess said.

The decline in spending is creating a domino effect as companies cling to cash, delaying payments to suppliers by 30 to 60 days longer than ordinary.

"Everybody's holding onto whatever cash they have," Kiess said. "Everybody stretches their vendors to preserve their cash to protect their payroll and rent."

Fiscal physicals

If a cash crunch is inevitable, it may not be fatal. Accountants are advising companies how to make it through lean times, suggesting they start with a financial check-up.

"A lot of companies let things go that they can no longer afford to do," said Materazo, suggesting firms conduct a "comprehensive physical exam."

Before executives can improve performance, they need to track profit and loss for particular services or items, eliminating weak product lines. "It's important to understand if you're selling products or services with low or no profitability and re-evaluate whether you should do that," Materazo said.

Although it may sound counterintuitive, tough times can be the best time to drop customers that provide little or no profit. "It lets you focus more time and attention on the most profitable customers," Materazo said. "Those are the ones that are going to carry you through the tough times."

Companies have to be careful that they don't let a customer run up such a big tab that failure to pay can put them out of business.

Robert Brewer, a partner at Lake Success-based Grassi & Co., said firms can improve cash flow with better billing plans. Do what you can to get some of the money up front.

"Negotiate better payment terms with some money down and progress payments instead of billing it all at completion," Brewer said.

Firms also can improve revenue by changing collection procedures. Brewer said owners or top executives can be more effective than bookkeepers in obtaining overdue payments.

"If the owners are willing to make the call and visit the customer, it can make a big difference in the collection process," Brewer said.

If companies can get customers to begin paying a portion of a bill, that's better than nothing. "It's important to get cash flow going," Kiess said. "Just get them used to writing a check. Send what they have. Stay in contact with customers on a regular basis."

Some firms are sending bills, demanding 0.5 percent monthly interest, although customers rarely pay penalties. "Does it scare people into paying sooner? I don't know," Zachary said. "But it's something I've seen people do."

Staffing down

Companies are trying to cure their cash crunch by cutting labor expenses, reducing hours or staff, or closing for a week. While none of this is pleasant, the greatest risk is doing nothing, according to Zachary.

"One of the biggest problems companies face is they don't have enough business to support the payroll they had at their prior level of business," Zachary said. "They're too slow to react."

Some companies are sticking with their work force, even if it means sacrificing short-term margins. Gershow Recycling Corp. in Medford is staying fully staffed, but is cutting back on overtime.

"These are people who have been very loyal to us and we've been very loyal to them," said Gershow President Kevin Gershowitz. "We sacrifice margins to maintain employment."

Other companies are giving employees an ultimatum. Zachary mentioned an office maintenance firm that told administrators they to take pay cuts or be let go.

"It's unpleasant, but most people take that option [the pay cut]," Zachary said. "When times are good, they'll get a raise."

Back to the drawing board

Kiess said companies also may be able to save money or delay payments by renegotiating leases, loans or contracts. One firm unable to pay a \$1.2 million loan on time agreed to pay \$5,000 a day. A retailer unable to pay November rent on time agreed to pay by March.

"It's buying the retailer time," Kiess said. "It keeps them out of landlord/tenant court."

Firms also can cut overhead by evaluating insurance policies, shopping insurance rates or decreasing property insurance as real estate values fall.

And companies may find big savings by not paying fourth-quarter tax estimates at planned levels if income drops. By filing electronically, firms can turn Uncle Sam into a partner, not just a problem.

"You can get that refund in the bank within a week or two. It's money you're entitled to," Zachary said. "Why procrastinate until October when you can get money in February?"

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