

Cash Flow

12 Ways to Defy the Entrepreneurial Law of Gravity

by *Verne Harnish*
"Growth Guy"

vharnish@gazelles.com



Get rid of your bank lines – Bill Ritchie, CEO of ThinkFun, and his team, focused on cash and reduced what had become a permanent \$1.5 million bank line down to zero in 2003. Reduce your cash cycle days – PPR Travel changed the color of their invoice to blue and reduced their cash cycle days by 15. Get customers to help fund your growth – Wild Birds Unlimited accomplished this through an innovative Free Birdseed Storage program.

Growth consumes cash – the first law of entrepreneurial gravity -- yet all three firms mentioned above dramatically improved their cash positions while growing their businesses. Below are 12 ways to reduce your cash cycle. Gather your executive team together for 30 – 60 minutes and brainstorm five ways you can immediately reduce your cash cycle and double your operating cash position within the next 12 months.

And how do you know if you're generating enough cash to grow? How do you calculate a cash cycle? The best article on this subject, complete with formulas, is Neil Churchill's Harvard Business Review article entitled "How Fast Can Your Company Afford to Grow?" You can go to www.hbr.com and download a copy for \$6.

Some areas of opportunity:

- 1) First, stop saying, "Well, this is just the way it is in our industry."
- 2) Have your available cash reported DAILY with a short explanation why it changed the last 24 hours – and chart against A/R and A/P weekly. You'll learn so much more about your business when you see how the cash is flowing on a daily basis.
- 3) If you want paid sooner, ask. Small firms are finding that large firms (and governments!!) will pay considerably faster or even prepay if you simply ask, ask, ask, ask, and ask some more.
- 4) Give value back for customers that pay in advance or on time – more below.
- 5) Get your bills out quicker – hire one more person in accounting to do nothing but make sure invoices are timely and followed-up.
- 6) Understand why your clients are paying later – many times there are recurring mistakes on the invoice or the invoice is not structured to make it easy for the customer to reconcile.
- 7) Understand your customers' payment cycles and time your billings to coincide.
- 8) Pay many of your own expenses with a credit card so you can play the float and get your own customers to pay by credit card.

- 9) Help your customers improve their cash so they can pay you – offer them leasing options, for instance.
- 10) Shorten product and service delivery cycle times. All of you have some kind of “work-in-progress.” The quicker you complete projects, the quicker you get paid.
- 11) Have such a valuable product or service that you have some leverage with your customers to pay sooner.
- 12) Of course, improving margins and profit improves cash.

The Wild Birds Unlimited story demonstrates how you can give value back to customers for paying in advance. Consistently recognized as one of the best franchises in the country, WBU sells birdseed, feeders, and other supplies for those interested in birds. Jim Carpenter, the founder, recognized that his customers would love to purchase birdseed in bulk, but didn't want to haul it or store it. Twice a year he offers his customers the chance to purchase a year's supply of birdseed at a significant discount, yet he agrees to “store” it for them through his Free Birdseed Storage program. Then every two to four weeks, the customer can come in and pick-up what birdseed they need. Not only does this generate a significant amount of upfront cash, but it creates traffic in the stores – a win/win/win for everyone.

PPR Travel, a leading healthcare placement firm, hired an extra person to make sure invoices were accurate; to call hospitals to proactively find out how they each wanted their invoice structured; and to make follow-up phone calls. In addition, they hit upon the idea to change the color of their invoice from the industry standard white to blue so its noticed in the huge pile of invoices sitting on the accounts payable clerks desk. Dwight Cooper, the CEO, has received lots of anecdotal feedback from hospitals where clerks say “because we know your invoice is accurate and won't be a hassle, and we know its blue, we grab in from the middle of the pile and up it on top to be processed first.”

As for helping customers improve their cash flow, back when I was selling \$100k energy management systems in college, we worked with a firm to lease the equipment to companies with a monthly payment less than the energy savings we were generating. We received our money the minute the contract was signed and the paperwork reached the leasing firm. The customer actually improved their cash flow because of the net difference between their energy savings and the lease payment. And the leasing firm did a nice business with us.

I've never found a business that can't dramatically improve their cash flow. And what it takes to reduce your cash cycle almost always leads to much greater operational excellence and customer service. You don't have to cheat your customers or suppliers to achieve better cash flow. And with more cash, you sleep much better at night!