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U.S. NATIONAL DEBT AS OF:

September 2019

$22,719,401,753,433

September 2018

$21,431,887,134,696

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Our CFO'S:

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Martin Hilker
Sanford Wexler
Trish O'Kane
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Updated!

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President's Message: *Getting to "Cash Positive"*

There's a lot of uncertainty in the economy right now, and we're starting to see financial performance issues in some companies & industries. Typically the pressure gets amped up as cash gets tighter and tighter, to the point where it turns to panic, inviting a host of emotional and potentially bad decisions... *"Should we just sell the business? Maybe I can find an investor? Let's get a bigger loan from the bank. Or maybe one of those Kabbage lenders, like I've seen on TV."*

But the first step is getting current operations to be "Cash Positive".

Cash Positive is one of those accounting/finance concepts that sounds simple enough, but in practice, it may be confusing. So I'd like to explain the "how to" side of getting to cash positive.

What would cause a CFO like us to bring up this term in the first place? Typically, it comes up when a company is underperforming, running out of cash, or hand-to-mouth on collections & expenses.

In some cases, it might be that the owner(s) are taking too much cash out of the business, basically manufacturing a cash problem. In other cases, if a company is growing rapidly, A/R & Inventory may be increasing which requires additional cash – the old adage is "*Growth sucks cash*".

But in most cases, underperformance **(i.e., lack of profitability)** is the culprit. Owners of these companies may be stumped at what to do, and default to trying to increase sales to remedy the problem. Frequently this approach exacerbates the problem or at best, defers it.

In most businesses, Cash follows Profit. If our accrual income statement says we made $50K of profit, it's unlikely we'll have an extra $50K in the bank at the end of the month – because we recorded the sale when we delivered the goods or services but haven't collected the cash yet. Accrual accounting is not the same as cash flow. Eventually it will be, but not in the same time period.

So if we see a company that's been struggling with cash and profitability, we're likely to recommend a **13 week cash forecast** (as will the companies' bank). One important subset of the 13 week cash forecast is the Net Change in Cash for the week, and the Cumulative Net Change in Cash over time.

The basic components of a Cash Forecast are: Opening Balance + Collections - Disbursements = Ending Balance (which becomes the opening balance for the next week.

Now a big question is: what do we do if we're behind on paying Vendors? They're calling, getting irate and want payment. So how do we factor that into our limited cash flow?

The answer is we ignore all old vendor debt as of the beginning of the cash forecast. It's not that we won't address it or pay it, but the first thing we need to determine is how much cash would we generate if we WEREN'T behind on vendor payments – and we only had to pay for the expenses incurred THIS WEEK (for payroll, vendors and overhead)?

So we look at all of this week's collections, this week's expenses, and then draw a subtotal for Cash Surplus (Deficit) **before** old vendor debt payments.

"But if I don't pay old vendor debt, they'll cut me off." That's probably true. But the first thing we have to determine is if we're generating excess cash from THIS WEEK'S activities. If not, we're never going to solve the problem.

The initial temptation is to juggle who gets paid to keep the operations going. But juggling doesn't answer the fundamental question: How much (or little) cash are we generating on a week in, week out basis – before factoring in "old debt"?

After going through this analysis, you should be able to determine how much excess cash is available after paying expenses incurred this week – that can be used for old debt. (If no cash is being generated, costs must be cut or sales must go up

Continued on P. 2

Article from PG 1. Continued

Dealing with unhappy vendors can be extremely stressful and distracting to a variety of people in the organization – ownership, accounting, sales people, project managers, to name a few. A few strategies for dealing with suppliers and past-due debt with limited funds:

- Use the process described above so that you are clear on what you can and cannot do. Don't make commitments unless you're sure you can honor them.
- Limit the number of conversations you need to have with vendors by paying as many small accounts on time as possible. Paying $10,000 to one vendor eliminates one phone call; using that same $10,000 to clear 25 smaller accounts eliminates 25 phone calls.
- With bigger vendors debts, ongoing communication is needed to maintain trust. One strategy in dealing with these situations is to offer to keep them current (or c.o.d.) for any NEW shipments of material, and create a longer term payment plan that chips away at the old debt over time. Explain to them the analysis that you've done, and what the budget allows for today, but also what you expect that will improve down the road. This way, they are not getting any further behind, and there is a tangible plan to reduce the old debt.

As with most situations in business, forthright communication is key to avoiding misunderstandings and finding workable solutions. The same goes for dealing with your bank. If they see an intentional, thought out plan that has merit, they're much more likely to be supportive. If it looks like you're winging it, and not delivering on your commitments, you're headed for trouble.

A weekly cash forecast is a key component for accurate decision making, and getting to cash positive.

Todd Rand

For a sample cash planning spreadsheet click here or visit www.michigancfo.com/the-cfo-store

Photos from Around Town

Brian and Todd with **Brian Calley** who presented Michigan's 2019 Scorecard for us at the DAC

Brian sending son, Erikson off to his first semester at Michigan State!

Sam Hoff and Rick DiBart out on the Waterford Hills racetrack

Brian out bicycling the streets of Detroit with his brother, David

You're Invited!

"Preparing for an Economic Slowdown"

Nobody knows when the decade-long expansion, now the longest in American History, will end. With increased concern among small business owners we are hosting a workshop, "Preparing for an Economic Slowdown."

This event will feature **Paul Traub, Senior Business Economist with the Federal Reserve Bank** and Michigan CFO Associates discussing what small businesses can do to prepare for an economic slowdown and what early warning indicators to look out for.

DETAILS:

Date: Wednesday. November 13th

Time: 11:30am- 1pm

Place: The Community House- 380 South Bates Street, Birmingham, MI 48009

Cost: Complimentary with lunch served.

Space is limited, register early at www.michiganCFO.com/events or email Alisha alucido@michiganCFO.com

Brian's Corner: The Business Owner's Challenge– Paying Competitive Wages

We recently sponsored **Brian Calley**, President of The Small Business Association of Michigan to present on results in the **2019 Michigan Entrepreneurial Scorecard** report. A question came up as to how competitive Michigan's wages are in comparison to other surrounding states. So in terms of median household income ($55k) we rank slightly ahead of Indiana and Ohio ($54k) however behind Wisconsin ($59k).

The more pertinent question to a business owner is, "*Am I paying the right amount to attract what I need?*" On the surface, this seems like a simple question to answer- "We pay what the market requires to get the people we need." However, taking this simple approach can cost more than you think unless you evaluate the options.

The options generally fall into two approaches: 1.) pay above market wage in the hopes of attracting more qualified employees who may stay longer and be more trainable, or 2.) pay at or under market wage in the hopes of finding younger trainable workers while you keep your costs low and be more price competitive.

While there is no right or wrong approach, here is what we find works for clients when it comes to competitive wages…you're better off paying more.

- It attracts more qualified applicants – they generally may be older and have a wider range of experiences to choose from.
- They tend to be more trainable – they may have some experience and their work history demonstrates a level of competence.
- Retention improves customer service – when turnover is low teams build experience working together.
- Low turnover saves money – turnover is costly to replace and train new employees.
- Word-of-mouth recruiting improves - good employees will refer their friends who are a lot like them.

Michigan's unemployment rate is at an all-time low of 4.2% so attracting and retaining talent is an ongoing challenge that may not be changing for some time. While wages are not the only factor people consider when looking at a potential employer it can often be what initially gets their attention.

Business owners must remain vigilant when it comes to paying competitive wages. When the employment market is good people will be looking to move up. Moving up often involves improved benefits and increased pay. Don't let good employee's get away!

Pop Quiz!

Todd's next career is going to be:

A. The Dallas Cowboy's Next Quarterback

B. Tesla Racecar Driver

C. KISS Look-A-Like Band Member

WELCOME New Clients!

Custom Service and Design, Auburn Hills, MI

Filtration Manufacturer

www.customserviceanddesign.com

David Michael Plumbing, Howell, MI

Plumbing, Heating and Cooling

Www.benjaminfranklinplumbingmi.com

Pioneer Homes, Clinton Township, MI

Real Estate Investors

https://www.linkedin.com/company/pioneer-homes-llc/

HAPPY ANNIVERSARY!

7 Years: P & P Manufacturing- Machine Tooling Manufacturer

4 Years: AA Jansson, Inc.-Precision Measuring Equipment

Global Telecom Solutions– Telecommunications Consultants

3 Years: Patti Engineering, Inc.– Factory, Automation & Robotics Manufacturer

Proto Manufacturing, Inc.—X-ray Diffraction Measurement

Wilshire Benefits Group, Inc.– Employer benefits brokerage

2 Years: K & K Die, Inc.– Automotive Tool and Die Manufacturer & Production Stampings

1 Year: Test Products Inc.– Custom Electrical Test Equipment

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