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Did you know?

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Here are ten top ideas to consider for improving cashflow:

1. **Think twice before financing a capital expenditure or a long-term asset with short-term working capital.** Not only is it expensive, it ties up the lifeblood of your business – cashflow. If you can't find alternative long-term financing options consider leasing as an alternative to buying.

2. **Consider taking advantage of terms to maximize Days Payable Outstanding (DPO) when offered.** You may want to forego Early-Pay Cash Discounts (EPD) for paying your bills early. The additional improvement in gross margin could be eaten up by the true cost of capital. The hidden cost of tying up working capital in inventory is usually larger than any benefit from the EPD. It is important to maximize your DPO as far as possible without causing a payment penalty.

3. **Consider reducing the number of brands you carry.** Some think that more variety will attract more consumers. In reality, a few core brands that meet the needs of consumers may be easier to sell. By consolidating an inventory portfolio, you also boost the importance to a few good suppliers. It can help maximize volume rebates, terms, and advertising support around key product offerings.

4. **Set short and long-term goals for key cashflow elements such as inventory turns and accounts receivable turns, and share those goals with your entire staff.** Monitor your progress monthly and communicate the results throughout the business. Motivate the team towards achieving the established goals. Everybody has potential to help positively impact goals. If pay incentives are provided be sure they are connected to the short and long-term goals.

5. **Work with key suppliers to focus on targeted offerings that provide maximum profitability and then train your sales force to sell them.** Don't just focus on margin dollars. Focus on how to generate maximum inventory turnover. Training your staff on how to move a customer to a brand is an important business basic.

6. **Continually work off old or obsolete inventory.** Unless it's the antique business, most products sold depreciate in value every month. The total carrying costs for old products add up over time. Some of the costs are related to interest, increased damage, or reduced credit line availability. Remember, your first loss is generally your least loss. Large amounts of old

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inventory are often the number one reason for a business' failure.

7. **Limit your accounts receivable exposure.** Establish a strict and restrictive credit policy, and minimize deviation. There are many credit sources out there. Use them. Unless a business has the cash to invest in accounts receivable, adequate bad debt reserves, access to credit reports and the trained personnel required to manage receivables, they are better off leaving the financing to the experts. Even with mandatory large cash deposits, builder-related receivables could jeopardize a business. This is particularly so for larger concentrations from a few builders.

8. **Resist the temptation to buy your way to profitability by chasing big volume rebates.** Volume rebates can be a great supplement to profitability. However, they should never be the primary profit driver. You will soon forget the volume rebate earned after you realize how much interest was paid on slow moving inventory or when your credit line is tied up in the wrong product combinations.

9. **Identify aged inventory for sales people by using codes on the display floor.** Most employees want to contribute to the success of the business. They will respond when called upon. Typically they just need is a little information on where their focus should be.

10. **Develop specific Return on Investment (ROI) goals for your business.** A business is an investment. Set a goal for a targeted ROI. You'll soon discover that how you manage your cashflow – specifically its primary drivers such as inventory, accounts receivable, and accounts payable – can have the biggest impact on ROI.

Jim Morphey is the vice president of corporate development for Wells Fargo Commercial Distribution Finance (CDF). Morphey has more than 40 years of management experience in consumer finance, trade credit, and most recently with domestic and international inventory financing, as well as factoring. Morphey's career has been devoted almost entirely to the domestic consumer electronic, appliance, and outdoor power industries. His background includes executive assignments in operations, credit, and relationship management at the national level with Whirlpool, Whirlpool Financial Corporation, Transamerica Distribution Finance, and senior relationship assignments at GE Capital.

Morphey received a Bachelor of Science in Management from Northern Illinois University. He was a member of the Association for Finance Professionals (AFP). He earned professional certifications from The National Association of Credit Management/Credit Research Foundation (NACM/CRF) Graduate School of Credit & Financial Management held at Dartmouth College, and also from The Finance, Credit, and International Business Association (FCIB). Morphey has published many articles on the topics of inventory management as well as cashflow. He also helped produce a six part video series on a variety of cashflow topics which may be found at www.cdf.wf.com/learningcenter. Morphey and his family reside in southwestern Michigan.

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