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The Cash Target Game

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Do your strategic goals include cash targets? Companies often set profit targets but forget that it's cash that pays the bills!

There are many reasons why cash targets are over-looked in strategic plans. Often, the people involved in the strategic planning process are not knowledgeable about cash flow. Many astute businesspeople erroneously think that cash is just a by-product of the business cycle. They don't see cash as "controllable."

Next there is the problem of basic unfamiliarity with balance sheets in general. Many owners are critically aware of every item on their profit and loss statement, but barely look at a balance sheet. They often think there is nothing on the balance sheet that is truly meaningful. Considering that every item on the balance sheet, however, impacts cash in some way, this misconception should be stopped **immediately**!

One of the excellent side-benefits of setting a company cash target and sharing that goal with your employees is that every employee can learn how their own job performance affects company cash. By teaching employees about your company's balance sheet and cash flow, this education plus a company cash target goal can make a dramatic improvement in your company's cash position and overall liquidity.

Consider the following positions within a typical company and how the level of job performance within each position can impact company cash.

Wholesale Customer Service – Order-taking accuracy is paramount to correct delivery. An incorrect order means the need to credit and rebill a customer at a later date. The typical cash impact of one inaccurate order is a five-day delay in receipt of cash.

On a $10,000 fuel load, assuming a company must borrow on a line of credit while waiting for cash, this five-day delay costs about $13.50 in bank interest. Add another $50 in labor and materials for the rebilling for a total of $63.50 per incorrect order! Now how many incorrect orders are occurring weekly? How about one per day? This would equate to a cost of $16,510 per year. Do your customer service people know that just one error per day could cost the company $16,510 per year?

Warehouse Manager – This person's impact on cash is easily quantifiable since inventory is lost cash. How often does the inventory total on your balance sheet swing by $100,000 or more in a month? Who controls that cash flow? The person purchasing the inventory!

By reducing unneeded inventory, a savvy warehouse manager can put $100,000 or more into the company's coffers! This $100,000 can save the company up to $10,000 per year in bankline interest costs, adding to the bottom-line as well as increasing cash!

Driver – A driver can influence customer payment behavior, as well as control truck maintenance costs. If drivers are educated in cash flow, they can facilitate prompt payment through accurate paperwork and getting their fuel tickets into the right hands.

On the maintenance side, responsible drivers ultimately control preventive maintenance. A good maintenance schedule can help a company avoid costly major repairs at a later date.

Salespeople – These folks control company cash through pricing of product and payment term negotiation. A salesperson who is knowledgeable in EFT form of payment and can sell this concept to your customer will typically reduce accounts receivable collection time by three days compared with non-EFT customers. Contrast this to the salesman who says, "They'll bill you in 15 days, but you really don't need to pay until the 30th day." What's being said to your customers by your salesman can make or break company cash flow.

How about time and resource management? Do your outside salespeople drive from one end of town to the next each day because they've never learned to group their appointments? Think of the lost cash!

Store Clerks and Managers – The obvious impact on company cash at the store level is accurate cashiering. Store personnel must collect the correct amount of cash from the customer and make the correct change. The not-so-obvious impact to store cash is paperwork accuracy, daily punctuality, and store maintenance.

Store paperwork errors cost time and money. Use an industry average of $25 for each inaccurate shift report. Lack of punctuality carries a cost of overtime for the clerk that must wait for the late employee. Just like drivers, clerks control repair costs through daily store maintenance procedures.

Consider this — could your store clerks get more involved in inventory management and save the company cash? The answer is yes! Absolutely! Who better to know what customers want and don't want than your clerks? If store clerks were taught to understand their store's balance sheet, and then were challenged to maximize sales and reduce costs through smart inventory management, any store could achieve improved cash flow!

If you are now convinced that all employees affect cash, here's how you go about setting a cash goal.

1. Educate all employees about company cash and how they impact that cash.
2. Have each location and department estimate how much they can improve cash and by what date.

3. Put these "guestimates" into a chart segregated by date.
4. Add the total for each date to the company's average "normal" cash balance.
5. Determine an incentive to be shared with all employees if the company meets its cash target. (Ideally, this target should be combined with a profit target.)
6. Provide feedback to all departments on a regular basis. Use visuals such as a big thermometer that is filled in as cash increases. (Don't use memos! They are boring and hard to read!)
7. Celebrate in a big way when the cash target is achieved!

In essence, you teach all your people how cash works, you follow the action and keep score with how you are doing, and you provide them with a stake in the outcome.

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