



■.VINCENTS

# Working capital & Maximising Cash

November 2020

# An important message



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# Working Capital



....the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

# Pain points by the numbers



40% of businesses report their customers are paying late

39% of businesses report their suppliers are reducing payment terms

28% of businesses are paying their ATO obligations late

3 out of 4 businesses are using personal credit cards to cover short term funding needs

On average, 16% of a businesses revenue is overdue

8% of businesses wrote off bad debts or lost a key debtor through Insolvency

56% of businesses offer early payment discounts

22% of business are unable to take on new work due to cash flow restrictions

Source – East and Partners Growth Index March 2019, September 2019, April 2020

# 7 key cash drivers



# Inputs and influences



## Accounts Payable

Extend terms

$$\frac{\text{Accounts Payable}}{\text{Total Purchases}}$$

This formula reveals the total accounts payable turnover. Then multiply the resulting turnover figure by 365 days to arrive at the number of accounts payable days.

Accounts Payable

**58 days**

## Accounts Receivable

Reduce terms

$$\frac{\text{Accounts Receivable}}{\text{Annual Sales}}$$

This formula reveals the total accounts receivable turnover. Then multiply the resulting turnover figure by 365 days to arrive at the number of accounts receivable days.

Accounts Receivable

**43 days**

## Inventory Management

Reduce terms

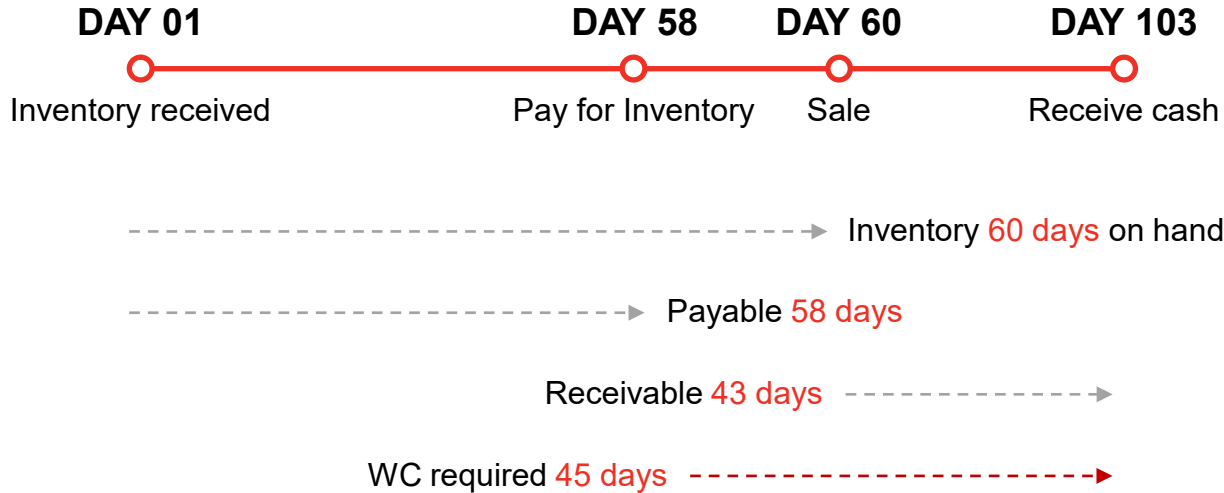
$$\frac{\text{Current Inventory}}{\text{Total COGS}}$$

This formula reveals the total Inventory turnover. Then multiply the resulting turnover figure by 365 days to arrive at the number of Inventory days on hand.

Inventory on hand

**60 days**

# Cash conversion cycle



**The Business has  
\$4,000,000 Turnover**

COGS	\$2,800,000
Overheads	\$500,000
	<u>\$3,300,000</u>
	365

= \$9,041 per day x 45 days

**TOTAL WORKING  
CAPITAL REQUIREMENT  
~\$400,000**



# The impact of discounts



Be careful when offering discounts!

Make sure you build/reverse engineer any discounting into your pricing model.

For example – business that has a 30% GP margin target, has a \$10,000 sale that would look like this:

Sale Price	\$	10,000
COGS	-\$	7,000
GP\$	\$	3,000
GP%		30%

# The impact of discounts



Assume the same facts, but the business offers a 5% discount to a customer for early payment:

The impact:

Sale Price	\$	10,000
Discount	-\$	500
COGS	-\$	7,000
GP \$	\$	2,500
GP%		25%

- \$500 reduction in gross profit
- 5% reduction in GP%

The biggest impact – the business now has to sell another \$2,000 (20% increase in sales!) to recoup the discount/reduction in GP\$:

Sale Price	\$	2,000
Discount	-\$	100
COGS	-\$	1,400
GP \$	\$	500
GP%		25%

\$2mil annual turnover, 2% discount = \$140k in additional sales, or 7% increase in sales required to achieve same GP\$

# Lazy Balance Sheet



A 'lazy balance sheet' is when there is excess cash in business that isn't working for you, or your business, as hard as it could be

Excess cash considerations:

- Increase wealth through investments outside of the business
- Reducing risk exposure
- Extracting cash tax effectively
- What if business needs the funds?