



March 2009 - Issue #37

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Succeed During These Turbulent Times - Manage for Cash Part 2

In today's economic and business environment, cash is king. The critical importance of cash in businesses continues to rise. One just has to read the news to see cash highlighted on a daily basis in relation to several high profile companies - GM, Chrysler, MGM Mirage, GE Capital etc.

In businesses, there are a three ways to affect cash - earnings from operations, working capital (inventory, receivables), and the sale of assets. Last month, we addressed inventory - how else to manage cash?

First, take a step back and think about the big picture - how can you reduce your breakeven point for cash? Re-evaluate your core decisions to ensure they still make sense. Discontinue a marginal-profit product line. Stop selling to a customer which ties up more than its fair share of cash for extended periods of time. Re-evaluate markets and distribution channels. Re-evaluate your plant and distribution network. The key with each of these is to make sure not to panic; instead, prioritize based on your company strategy and critical success factors - what impact does each of these have on your strategy and critical success factors?

Second, evaluate each of the ways to affect cash. When reviewing earnings from operations, do not focus solely on what you've likely been focused on the last several years, growth and margin. Instead, re-evaluate with an eye to cash. When reviewing your customer base, which customers tie up significant amounts of cash? For what periods of time? Is there a way to change the amount of cash tied up with customers? For example, I've partnered with customers to develop win-win programs such as vendor managed inventory and transportation partnership programs that increased cash while reducing costs and improving customer service. Also related to generating earnings from operations, the traditional but often overlooked "increase revenue, reduce costs" achieves the goal. Note that I did not say solely to reduce costs - in my experience, many times, when the organization is already focused on continuous improvement/ lean thinking, costs are already low (and/or continually improved); therefore, the largest impact can be found by re-focusing priorities and concentrating on increasing revenues. At times, it even makes sense to do the unthinkable and raise prices. Just remember to consider customer value in decision-making.

Next, when reviewing projects, instead of focusing solely on return on investment, it is also critical to consider the cash which will be consumed and the timing of the return on investment vs. cash projection needs. For example, even if a project has a good payback in regular times, it might not make sense to move forward in the current economic timeframe if it will require significant cash outlay upfront. However, it is critical not to panic, and it's certainly not the time to stop investing. In a similar vein, according to a McGraw Hill research study about the 1981-82 recession, those companies that invested in advertising during the recession performed over 14 times better than those that cut advertising.

Third, remember your customers and suppliers. Do you know their financial conditions and cash positions? Especially in today's integrated supply chain, these considerations can have a profound effect on your business. Think about them proactively.

Fourth, during times of economic uncertainty, monitoring cash metrics on a frequent basis is critical. (And, as an aside, why stop even when it turns around?) Your quick ratio is critical, as it measures short term liquidity, and cash projections are cornerstone. Since cash metrics will rise in importance during this timeframe, why not take it a step further and provide training and education to your workforce on cash flow/ metrics? When people understand what is important, how they can contribute to the goal, and how it is measured, amazing results follow.

Lisa's Tips: Find & retain talent

Recently, I've seen an opportunity jump out at me, and I thought, "Bummer, I committed to writing about managing cash part two", so instead I decided to highlight this opportunity in this section. Why is it an opportunity to retain and find top talent today/ now?

1. Take advantage of your competition's losses - given recent layoffs and unemployment statistics, there is some exceptional talent and underappreciated employees available in today's work environment.
2. Don't survive; thrive - why focus all your energy on surviving? Instead, invest in your #1 resource - people. The right people will figure out how to leap over survival and instead develop a way to thrive.
3. Think ROI (return on investment) - the best people will return a significant ROI. Why worry about \$50,000 or \$100,000 in salary when you can retain or find talent which implements \$1,000,000 in cost savings (with a large percentage immediate / quick payback)?
4. Retain talent - don't become so focused on those involved with layoffs or quietly celebrating that you can avoid layoffs that you forget to retain your most valuable resource - your people. I bet each of us knows of someone or has someone working for us who reliably delivers results, yet since their manager is completely swamped and diverted to day-to-day firefighting, they are ignored. Change this today. Or, if you are one of those employees or a peer of one of those employees, help each other - celebrate successes, brainstorm how to contribute to the goal, provide suggestions, consider the positive, etc.
5. Don't get too complex - if you are one of the few hiring, do not become overly complex and rigid in requirements. Of course, there is nothing more critical than finding the best person to fit the role; however, eliminating a significant portion of potential candidates for arbitrary reasons (narrow search criteria) defeats your purpose. None of the top 3 people I've worked with during my career would qualify for many of the positions advertised today due to different reasons - when the top 3 people cannot fit typical criteria, something is wrong!

Recommended Reading

"[Secrets of Social Media Marketing](#)" by Paul Gillin - it is a timely book about how businesses can utilize online conversations and customer communities to prosper. In today's economic environment, can you afford to be left in the dust?

LMA Consulting Group

2058 N. Mills Ave, PMB 532

Claremont, CA 91711

Main: 909-630-3943

Fax: 909-625-5603

www.lma-consultinggroup.com

landerson@lma-consultinggroup.com