

## **IN A CASH FLOW CRUNCH?**

by Linda Carter

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email: [LC@the-retail-advisor.com](mailto:LC@the-retail-advisor.com)

The cost of being behind in vendor payments is hard to define in actual dollars but the toll it takes on you and your business is too great for you to let this condition commence or to let it continue if you are already in this situation.

When you are behind in paying vendors you will find that many new lines are not available, even on a COD basis. Since COD shipments or shipments for which half or all is paid in advance require special handling by the vendor, they would rather ship on open credit terms to someone else. Even if they will make these special arrangements, many times you will find that shipments are late or incomplete since the vendor will take care of his problem-free customers first. It is only natural to take the course of least resistance.

COD shipments or shipments for which advance payments must be made aggravate an already poor cash flow position since you must pay for the merchandise before there is time to sell any of it to generate funds.

When you are behind in paying vendor invoices, discounts which are normally from 1% - 8% are lost. This further hampers profitability and cash flow.

A single factor may have a half dozen of your lines. If you are behind in paying one, they will refuse credit to the others.

Being behind in payments can cause a loss of sales. Merchandise may be shipped late due to special handling - - or not at all. How much business is lost because you can not get a new dynamic line? Or, you may have ordered merchandise from two different vendors, which you intend to sell as an outfit; what happens when the pants come in but not the jackets?

The two things that take the greatest toll on your business when you are behind in vendor payments is the amount of time it takes to deal with the situation and the demoralizing effect that this situation has on both you and your employees. As a small business owner your time is very valuable. You must wear many different hats: manager, buyer, salesperson, etc. When you are forced to spend so much time talking to vendors and factors about past-due invoices and trying to find merchandise to replace orders that were cancelled, not enough time is being spent doing all the other things that are necessary for the successful operation of a retail business. I have seen retailers waste time at market shopping only those lines that Factor XYZ carries because they have good credit with that particular factor. Also, how well can you sell after

talking with a creditor who is threatening to turn your account over to a collection agency or who has just cancelled an order for merchandise that you were counting on receiving? And do not think that this affects only you as the owner. Your employees know when things are not going well and it will have a detrimental effect on their performance as well. Some of your best people may leave, looking for a more stable company.

If you are currently in this situation, what can be done to turn it around? First, obtain more operating funds for the business either by investing more capital or obtaining sufficient long-term funds. Remember, \$1 of capital is required for every \$4-5 of sales volume.

If your circumstances were brought about as a result of over expansion and excess debt, then you should swallow your pride and consider pulling in your horns. Better to lose this battle, than the entire war. There are companies that specialize in store closing and cash raising sales that may be able to help you generate enough cash to get current with your vendors.

Take personal control of the company's cash. Decide who gets paid and when. Try to work out payment plans with your creditors. BUT, do not make promises you can't keep. Develop a simple weekly cash flow budget for the next month, listing all anticipated cash receipts and required cash disbursements.

You must develop and rigorously follow an Open-To-Buy to bring your inventory in line a prevent future over-buying.

Next, and this will take some effort on your part, develop a proforma income statement, balance sheet and cash flow budget for the next year, by month. This is your long-term plan for turning the company around. But remember, it must be based on realistic, achievable goals, and it must be followed.

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510 Red Oak, Allen, TX 75002  
Phone: 877-206-1299