

# TIPS *from* LauberCFOs

## Generate Cash by Taking a Critical Look at Receivables & Inventory

### Growing Receivables and Inventory Use Cash

Cash shortages can be brought on by numerous factors. Some involve receivables and others relate to inventory.

If a company is facing a tight cash situation, one or more of the following factors could be the problem. **Identifying the causes is the first step to finding a solution**

#### Why do receivables and inventory use up cash?

- **Receivables** – You have purchased the material, paid employees and shipped the product, but have not been paid yet.
- **Inventory** – You have purchased the material and paid employees, but the product is sitting in your plant.

#### Reasons Behind Increasing Accounts Receivable

- Sales are up
- Customer payments are slowing down
- Customers are not paying invoices in full (retainers)
- Disputed invoices (Minor disputes can hold up payment of entire invoice)
- Unrecognized bad debts
- Follow-up procedures are not being followed, perhaps due to change in personnel
- A new customer is slow in paying
- Delay in getting invoices out (e.g.: invoice dated on the 1<sup>st</sup> but not mailed until the 15<sup>th</sup>)
- Customer believes goods were purchased on consignment and doesn't want to pay until goods are sold
- Company holding open sales at end of month to meet revenue projections
- Someone is diverting cash receipts

#### Reasons Behind Increasing Inventories

- More inventory needed to support growing revenues
- Revenues dropping and adjustments not made to change purchasing patterns
- Buying the wrong stuff
- Customer buying patterns are changing
- Scrap not being recognized and expensed
- Obsolete inventory not identified and written off (expensed)
- Cost accounting system not properly relieving all of the costs associated with a sale
- Inventory used for internal purposes but not recorded
- Inventory that has been stolen needs to be replaced but has not been removed from the books
- Damaged inventory not recognized and written off
- Stocking up for additional location
- Customers requiring company to maintain their safety stock (Just-in-time or kanban)
- Trying to be all things to all people
- Abnormal amount of customer returns
- Loss of a customer without close-out of inventory related to that customer
- Company introducing new product line requiring inventory build-up
- Significant increase in cost of raw component
- Company continuing to produce to keep from laying off employees
- Employees producing to meet incentive plans instead of what's needed
- Company acquired another company along with its inventory

If your company is experiencing cash shortages and you'd like to discuss effective responses and solutions, call us at 414-273-8060 or 800-358-8060; e-mail [John.Lauber@LauberCFOs.com](mailto:John.Lauber@LauberCFOs.com). One of our LauberCFOs would be happy to confidentially work with your company to overcome cash shortages.