



Wholesaler & Manufacturer Challenges: Cash, Credit & Capital (Part 1)

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

In the course of our work with many wholesalers and manufacturers, we hear about the different financial and operational challenges these businesses face. In this new series of articles, we take a close look at both these challenges and the potential solutions that an outsourced CFO services provider can help implement.

Cash Flow, Cash Management and Forward-Planning Reporting

A top challenge we see: cash flow, cash management and reporting are not optimized, and negative consequences are pervasive. Two key causal factors are:

1. Current cash management processes are not comprehensive, automated or integrated

Poor cash management can be grounded in a number of basic accounting problems. Manual processes or incorrect accounting software isn't supporting optimized handling of receivables, payments, inventory management, purchasing and overhead.

2. Limited and historical reporting does not support forecasting and forward planning

Without real-time and forward-planning reporting, executives do not have the information they need to look ahead and make the best business decisions.

Unfortunately, non-optimized cash management and reporting processes negatively impact cash flow and can cause problems in areas like the following:

- Inability to pay vendors on time resulting in missed discounts, possibly less favorable pricing, and movement to a lower priority for scarce products and materials.
- Potential out-of-stock situations for materials leading to lost sales and even lost customers.
- Less cash coming in and the snowball rolling downhill.
- Tightening of credit if borrowing base requirements cannot be met.
- Possible tripping of loan covenants.

Ultimately, relationships with creditors and lenders — and even the ongoing survival of the business itself — can be placed at risk. An outsourced CFO services firm can help by identifying areas that need addressing to improve overall business efficiency. Examples include review and recommendations related to accounting and cash management process flow, management of overhead expenses, collection of receivables, inventory management, and payments to vendors to take leverage discounts and ensure supply.

Lines of Credit and Working Capital

Wholesalers and manufacturers also face credit and capital challenges like the following:

Internal accounting data is not timely or accurate.

Delays and/or inaccuracies in data reporting can negatively impact lending agreements.

Payments to suppliers are due before related A/R collections take place.

This challenge is especially common in fast-growth companies, and it necessitates a line of credit or other working capital source. However, there are often inflexible and non-productive working relationships with lenders. For example, wholesalers and manufacturers may not have negotiated the most favorable terms and covenants in their borrowing agreements.

Lending agreements include covenants that set borrowing limits.

Most wholesalers and manufacturers borrow against their inventory or receivables, and the loan covenants may require that current cash positions and cash flow projections adhere to standards. When the company's positions vary and move outside required limits, the lender may take remedial action, including calling the loan due.

There are negative positions for cash-on-hand and/or inaccurate cash flow projections.

In extreme circumstances, these problems have caused some wholesalers and manufacturers to have to shut down their businesses.

An outsourced CFO services firm can provide valuable assistance in these areas by helping develop an overall forward-planning strategy that moves them from a reactive to a proactive stance. Such a firm can also provide reporting and planning data optimization and perform a borrowing base analysis that spots projected cash and credit issues long before they catch the eye of lenders.

An outsourced CFO services provider can also work together with wholesalers and manufacturers and their lenders to anticipate and solve working capital problems. This includes helping negotiate lending contracts, terms and covenants.

For example, in working with a large toy manufacturer, one of our CFOs identified a critical period months in the future when the firm would not be able to stay within its borrowing base. He proactively demonstrated to the lender liquidity and cash flow both before and after this critical period. This showed the lender key details about how the manufacturer would hit its numbers, giving the bank more comfort and enabling it to respond positively.

Concluding Thoughts

Due to significant cost structures and narrow margins, Los Angeles and Southern California wholesalers and manufacturers must maximize operational performance to boost cash flow and profitability. Doing so requires a deep understanding of current financial and operational challenges. A provider of CFO services works closely with these businesses to identify high-value opportunities to improve results and to implement solutions that resolve challenges like those discussed here.

About CFO Edge

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.

This publication has been prepared for general information on matters of interest only, and does not constitute professional advice on facts and circumstances specific to any person or entity. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication. The information contained in this material was not intended or written to be used, and cannot be used, for purposes of avoiding penalties or sanctions imposed by any government or other regulatory body. CFO Edge, LLC, its members, employees and agents shall not be responsible for any loss sustained by any person or entity who relies on this publication.