



# **THE ULTIMATE CASH CYCLE GUIDE**

**Smart Cash Flow  
Strategies for Your Business**

2017 Edition



Click to jump to section  or keep scrolling...

# INTRO

**GROWTH  
IS GOOD.  
BUT THE WAY  
YOU DO IT IS  
CRITICAL.**



## HOW LONG CAN YOU WAIT FOR CUSTOMER PAYMENTS UNTIL YOUR COMPANY STARTS FEELING CASH-STRAPPED?

You buy inventory, store it, sell it, pay your suppliers and then wait... and wait... and wait to collect on your invoices. Wish your customers would pay on time? **Wish you had a faster cash cycle?**

Every business wants that process to be as fast as possible. **The longer it takes, the more capital (or access to capital) you need to run your business.**

Either ***you* supply that money** or ***you're forced to borrow it*** from someone else.

**And that's going to cost you... big time.**

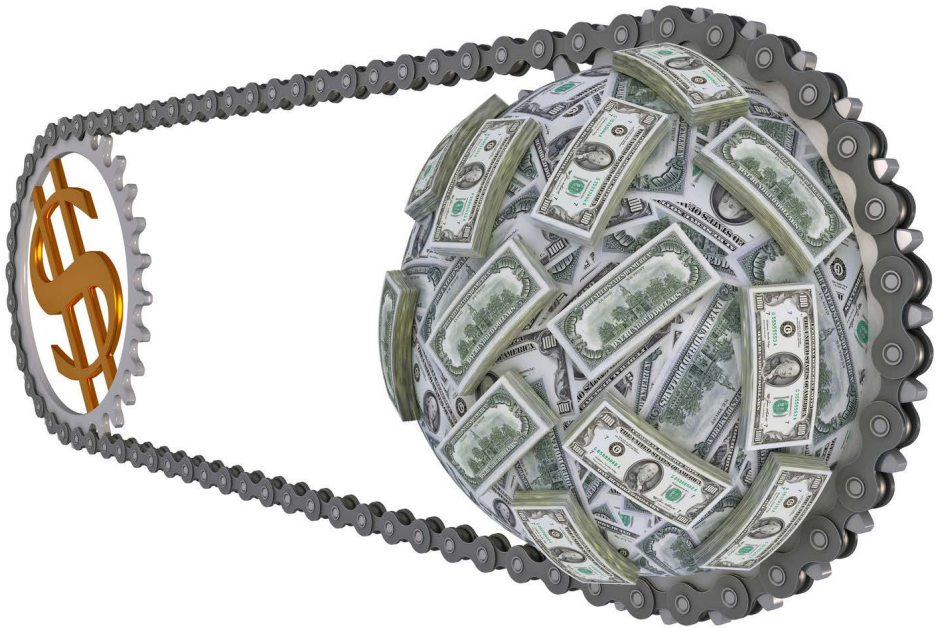
Fortunately, there are other options you might not be aware of that can come to the rescue. They can **speed up your customer invoice payments, save you money** in the long run and **help grow your business faster than ever.**

**KEEP SCROLLING FOR  
THE ANSWERS...**



## SECTION 1

# WHY THE CASH CYCLE MATTERS



If you buy and sell inventory on account, then you'll need to know **how long it takes to turn that inventory into cash**.

That's exactly what the cash conversion cycle will tell you. It's your key to **making sure you're on top of your company's cash flow**.

## What is the Cash Cycle?

The **cash conversion cycle (CCC)** - or "**cash cycle**" for short - follows you through the supply, sales and payment journey. Getting paid and putting cash back into the company is priority one. You're likely used to this process:

1. **Acquire inventory from a supplier**
2. **Store that inventory**
3. **Sell it to a customer on account & invoice them 30, 60 or 90 days**
4. **Pay your suppliers**
5. **Collect on your invoices**

The CCC will give you an **indication of your cash liquidity position** — and it can point your attention to what is **helping** or **hurting** your cash flow.

The three variables **DIO** (Days Inventory Outstanding), **DPO** (Days Payable Outstanding) and **DSO** (Days Sales Outstanding) can all impact your working capital. And you can take control of them to improve your cash flow. Depending on the results, you may discover immediate areas that can be improved. We'll explore these variables in *The Magic Formula* section.

### RULES OF THUMB:

The **longer the CCC**, the **more working capital you'll need** to manage your operations.

The **shorter the CCC**, the **more manageable your cash flow**. Most companies want to shorten their CCC.

## Already convinced and want to improve your CCC?

[Skip ahead to learn how to speed up your customer invoice payments.](#)



Or, **keep scrolling** to learn why cash flow matters...

### Sneak peek:

Days Inventory Outstanding  
- Days Payable Outstanding  
+ Days Sales Outstanding  

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= **Cash Conversion Cycle**

$$\text{CCC} = \text{DIO} - \text{DPO} + \text{DSO}$$

Days Inventory Outstanding      Days Payable Outstanding      Days Sales Outstanding

## SECTION 2

# WHY DOES CASH FLOW MATTER?



## THE CCC IS A CRITICAL FINANCIAL INDICATOR OF YOUR COMPANY'S CASH FLOW.

It shows your **ability to maintain highly liquid assets** and is a metric that lenders or finance and capital providers will use to **assess your potential risk level**.

As a business owner or operator, you **must know when you'll have access to working capital**. That cash flow is important to:

- **Pay your staff**
- **Order supplies and inventory**
- **Fulfill customer orders**
- **Take advantage of opportunities**
- **Secure outside investment in your company**

Whether you're a new startup, a growing business or a well-established enterprise, **there will come a time where capital will be an issue**. Get ahead of that problem and **forecast your CCC** to avoid detrimental outcomes.

**NEXT: LEARN THE CASH  
CYCLE FORMULA...**





## SECTION 3

# THE MAGIC FORMULA



## How to calculate the Cash Conversion Cycle

There are three numbers you'll need to determine your CCC, all of which you or your accounting team can pull from your financial statements.

$$\text{CCC} = \text{DIO} - \text{DPO} + \text{DSO}$$

### Tell me in plain English

The cash cycle is equal to the number of days it takes to sell your inventory (DIO), minus the days it takes you to pay your vendors (DPO), plus the days you need to collect on your invoices (DSO).

#### DIO: Days Inventory Outstanding

- The number of days on average that your company turns your inventory into sales.
- The smaller this number, the better.

#### DPO: Days Payable Outstanding

- The number of days it takes you to pay your accounts payable.
- The higher this number, the longer you can hold onto cash, so a longer DPO is better.

#### DSO: Days Sales Outstanding

- The number of days you'll need to collect on the sales of that inventory after the sale has been made.
- Again, the lower the number, the better.

#### EXAMPLE: KEISHA

**Keisha runs an industrial supply company and always pays her supplier within 30 days.** She keeps enough inventory on hand to satisfy 60 days of sales and is good at managing this. It will take 52 days on average for her customers to pay their invoices. This would be her CCC formula:

$$\text{CCC} = 60 \text{ days} - 30 \text{ days} + 52 \text{ days}$$

$$\text{CCC} = 82 \text{ days}$$

Keisha will need on average 82 days of working capital to convert purchased inventory into cash.



This is a simplified example, and to get the most accurate results you should track your DIO, DPO and DSO on a **monthly, quarterly or annual basis**, along with the dollar values for inventory and sales.

### Now what?

You've learned your current cash cycle and know that the quicker you can turn sales into cash, the better.

**NEXT, LEARN HOW TO SHORTEN YOUR CCC SO YOU HAVE WORKING CAPITAL ON HAND FASTER THAN EVER.**



## SECTION 4

# HOW DO I SHORTEN MY CCC?



To shorten the CCC you need to **find a way of adjusting the three variables** – your DIO, DPO and DSO. You have options:

## 1. Improve sales times

**If your sales team can speed up the time to make deals, you'll be shortening your DIO** – the time it takes to turn your inventory into sales. Sell faster – it's every company's goal, but often easier said than done.

## 2. Enhance supplier relationships

**Likewise, improving your supply chain can create efficiencies in your DIO.** By developing good relationships with suppliers you can take advantage of just-in-time inventory practices, where your goods arrive only as needed. This may already be a common option for some industries, like manufacturing and perishables, but it is also becoming more popular in retail with the rise in drop shipping, where companies never handle their own inventory – instead, when your customer orders arrive you'll purchase the inventory from a third party who ships directly to the end customer on your behalf.

## 3. Better credit and collection process

**There's no doubt that an effective collections department will improve your ability to collect customer invoices on time.** Effective collections can help create a more stable and reliable DSO. However, this requires staff training, likely more personnel hours (translating into payroll costs) and leadership's time to make sure this process is effectively managed.

## 4. Ask for extended payment terms

**Extending your accounts payable will increase your DPO, and help offset the other two factors of your CCC.** But this could negatively impact your relationships with suppliers if you extend too much, and breaching the terms could put you at risk of becoming the delinquent account you're trying to avoid in your own A/R.

## 5. Reduce your 30/60/90 day payment terms

Fortunately, you're in control of your accounts receivable terms and can **shorten them to receive payment earlier.** By reducing your terms, you lower your DSO and speed up your cash cycle.

Unfortunately, many customers request and expect longer terms. Some industries abide by certain timeframes to pay, which may not match up with your cash flow needs. And other customers will be delinquent on payment no matter what terms you agree upon. You may risk losing sales to competitors offering better terms.

## 6. Early pay discounts

**These are generally not very effective at reducing your DSO** and some customers take the discount even when they pay on normal schedules. Overall, this can lead to lower revenue than expected, which doesn't amount to a cheap option.

## 7. Smart & strategic financing

**Being strategic with your billing and collections is one of the most accessible ways to improve your cash cycle,** and you can use commercial finance solutions to dramatically shorten your DSO. In fact, instead of having a DSO of 30/60/90 or more days, **you can have a DSO of one day.**

**KEEP READING TO LEARN THE FOUR FINANCIAL SOLUTIONS TO SPEED UP YOUR CASH FLOW...**



## SECTION 5

# 4 FINANCIAL SOLUTIONS TO IMPROVE CASH FLOW



## COMMERCIAL FINANCE PRODUCTS ALLOW YOU TO TAKE CONTROL OF YOUR CASH FLOW.

You'll be able to **make strategic decisions**, follow through on **operational plans** and most importantly, **shorten your cash cycle**.

- **Don't wait for customers to pay their invoices. Instead, get paid now and outsource your collections to a reputable company.**
- **Extend your purchase terms so you have more time to pay your suppliers.**
- **Leverage the assets in your company, like inventory and equipment, to secure financing that a traditional bank couldn't provide.**
- **No terms? No problem. Access supplier terms where none previously existed.**

**Reinvest cash back into your company** without having to wait under traditional terms and timing that can hold you back from growing the business faster.

**UNCOVER EACH  
SOLUTION...**



# FINANCIAL SOLUTION #1



**Factoring**  
(Accounts Receivable Financing)

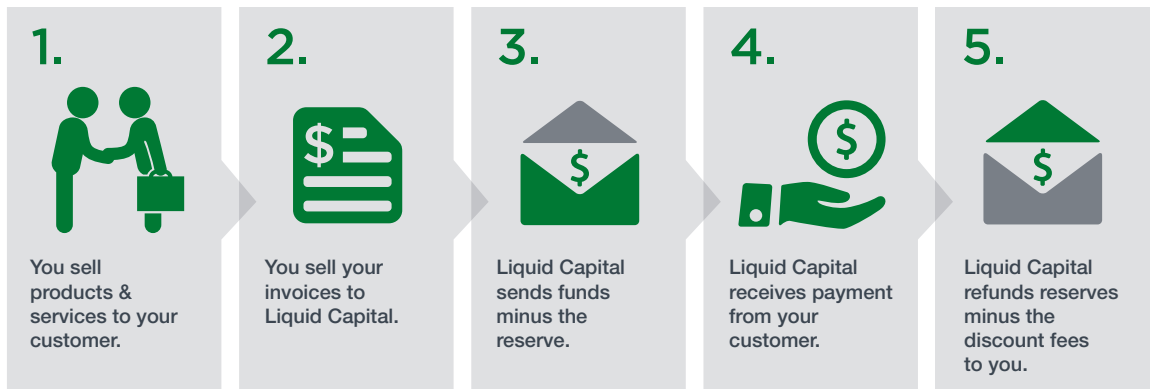
**TURN  
CUSTOMER  
INVOICES  
INTO CASH  
FASTER**



## Factoring

# ONE CLEVER FINANCIAL SOLUTION IS OFTEN OVERLOOKED, BUT IT IS A STRATEGIC OPTION THAT COULD BE PERFECT FOR YOUR BUSINESS.

By using “**factoring**,” also known as “**accounts receivable financing**” or “**invoice discounting**,” you can **reduce your DSO to as short as one day**. *It almost wipes out the obligation to wait on your customer invoice payments.*



Remember that a **lower DSO is preferred**. Getting paid in a timely manner for your customer invoices will allow you to **put that working capital back into your company** for things like new inventory purchases and making payroll.

As an added bonus, many business find that their **factoring costs are tax deductible**. It's important to have your experienced tax advisors review your factoring agreement and ensure your reporting is accurate and maximizes your returns.



Let’s revisit our earlier example to show how a factoring solution will lower the DSO and improve this company’s working capital wait time.


EXAMPLE: **FACTORING**

**Keisha runs an industrial supply company and she always pays her supplier within 30 days.** She keeps enough inventory on hand to satisfy 60 days of sales and is good at managing this. It will take 52 days on average for her customers to pay their invoices.

Keisha decides to work with her Liquid Capital Principal to **“factor” her customer invoices**, as she **needs to order a batch of inventory to fulfill a large new product order**. She knows that her next few months will be tight on working capital if she doesn’t do something soon. **With factoring, she receives her payment in just 4 days.** The Liquid Capital office then collects payments from Keisha’s customers on her behalf.


ORIGINAL CCC	USING ACCOUNTS RECEIVABLE FINANCING
CCC = DIO - DPO + DSO	CCC = DIO - DPO + DSO
CCC = 60 - 30 + 52	CCC = 60 - 30 + 4
CCC = 82 days	CCC = <b>34 days</b>

**Keisha improved her CCC by 48 days.**



In this example, Keisha **only has to wait 34 days to turn her inventory into cash**. Working with many business owners who’ve been in similar scenarios, we know that’s a **huge leap** from the 82 days or more that would otherwise be required.

As an added bonus, because Keisha has the Liquid Capital office deal with all her customer collections in a customer-friendly approach, it has **freed up a lot of her team’s time**. It’s all handled for her – professionally and worry-free.

**Want to know more about Factoring, or need help choosing a funding solution? Click here.** 

At Liquid Capital we work with companies to **buy your invoices and pay you up front**. We hold a small reserve fund as security, but **can pay you 80% or more for your invoice within as quickly as 24 hours**. The balance – minus the small reserve – is paid to you when the final invoice payment is received.

Instead of having a DSO of 30/60/90 or more days, you can have a **DSO in as little as one day**.

**NEXT: A SOLUTION TO TURN YOUR ASSETS & INVENTORY INTO WORKING CAPITAL...** 

# FINANCIAL SOLUTION #2



**Asset-based Lending**  
(ABL)

**LEVERAGE  
YOUR  
INVENTORY,  
EQUIPMENT &  
REAL ESTATE**



**Asset-  
based  
Lending**

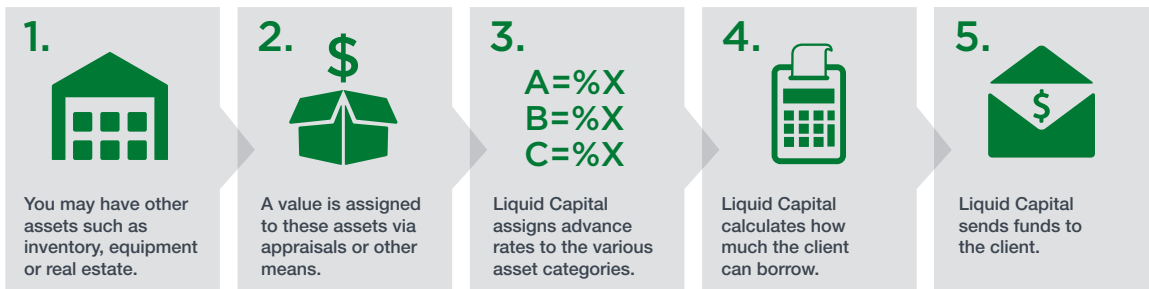
## IF YOUR COMPANY HAS AN ESTABLISHED PRESENCE AND A SOPHISTICATED REPORTING SYSTEM THAT CAN BE EASILY UNDERSTOOD AND REVIEWED, THEN ANOTHER OPTION EXISTS FOR LOWERING YOUR CASH CYCLE.

**Asset-based lending (ABL)** allows you to **leverage your inventory, equipment and real estate** in addition to your **accounts receivable** – offering you **access to more working capital**. Based on your solid credit-worthiness and assets, your commercial finance partner will **provide you funds in higher amounts** than just accounts receivable financing alone could provide.

### HOW IT WORKS - ACCOUNTS RECEIVABLE



### HOW IT WORKS - OTHER ASSETS (IE. INVENTORY, EQUIPMENT, REAL ESTATE)



ABL is cost-effective, very flexible and discreet – something that most large companies value. You don't have to change the process with your customers, and **you can almost immediately access a significant amount of working capital.**

### EXAMPLE: LEVERAGING INVENTORY TO IMPROVE WORKING CAPITAL

Clarence is the CFO of a tool manufacturing enterprise that has a large operating facility including a warehouse, office building and manufacturing plant. He prides himself on their impeccable financial reporting, and averages 60 days for their accounts payable, and 90 days for collections.


The Sales team is **working on a huge deal to sell existing inventory** in their warehouse, and expects to close that within 45 days. **Another big deal is on the horizon** that will require the production to ramp up, but **cash flow is tight** and Clarence needs to find **capital to buy all the additional supplies** that will be needed.

So he works with his Liquid Capital Principal to **leverage their manufacturing equipment along with their existing receivables** to secure a financing agreement. Liquid Capital approves the deal and **advances them the required \$2 million in funding 25 days later**, taking over their existing receivables. The new deal goes through and Clarence approves the purchase of the required supplies.

ORIGINAL CCC	USING ABL
$CCC = DIO - DPO + DSO$	$CCC = DIO - DPO + DSO$
$CCC = 45 - 60 + 90$	$CCC = 45 - 60 + 25$
<b>CCC = 75 days</b>	<b>CCC = 10 days</b>

**Improved CCC by 65 days**

Through asset-based lending, Clarence's cash flow cycle is dramatically shifted, freeing up resources so their new deal can go through. He was able to access such significant capital by leveraging the company assets in combination with his accounts receivable.

**Want to know more about Asset-based lending, or need help choosing a funding solution? Click here.** 

**NEXT: STUCK PAYING  
IMMEDIATE SUPPLIER COSTS?  
THERE'S A SOLUTION...**



# FINANCIAL SOLUTION #3



**PO Financing**  
(Purchase Order Financing)

**KEEP  
SUPPLIERS  
HAPPY, BUT  
THE CASH  
STILL IN YOUR  
POCKET**



## SOMETIMES SUPPLIERS DEMAND YOU PAY FOR YOUR ORDERS IN ADVANCE OR AT THE POINT OF SHIPMENT.

What if you **don't have the money to pay up front**, or a **letter of credit so they'll start the order**? Will they ship your goods?

When your **DSO** (days sales outstanding) is **60-90 days**, but your **DPO** (days payable outstanding) is **zero**, there will be a serious **working capital gap**. At that point, you have to wait for the cash to come in but still manage the ongoing costs of running your business.

**Purchase Order Financing** helps you **close the gap** where suppliers are not providing adequate – or any – terms. By extending the number of days you have to pay your accounts payable, you can **keep cash in the company** and effectively **increase your working capital**.

### PO FINANCING - 6 STEPS



Often, PO Financing works alongside factoring, so the business can take advantage of both solutions at once.

### EXAMPLE: FINANCING THE COST OF THE PRODUCT


The Gregory twins have been running their online retail venture the past couple years, selling car and truck accessories to the enthusiastic custom car community. Their suppliers are located across North America and overseas, so shipping is a big concern for the duo. Their business is growing, but their cash flow is still struggling. **It's tough to get supplier payments, orders and payments to align.**

Currently, their main overseas supplier **requires payment at the point of shipment** for a large order ready to leave. **Once the parts are on the boat, they're considered sold** to the Gregory brothers – and time begins ticking – but **the duo are cash-strapped and can't pay the entire invoice.** They're in dire need to get the parts in their customers' hands, as customer invoices usually take at least **35 days** to be paid.


Fortunately they have **major customer orders with supporting POs**, and Liquid Capital assists by **supplying a letter of credit to the supplier.** Liquid Capital **finances the Gregory twins' product costs** until the order is delivered to the customer, which takes **12 days** to arrive. They've secured not only payment, but **breathing room.** And by factoring their receivables, they'll now only have to wait **5 days** to see cash flow improve from their customer invoices.

ORIGINAL CCC	USING PO FINANCING
$CCC = DIO - DPO + DSO$	$CCC = DIO - DPO + DSO$
$CCC = 60 - 0 + 35$	$CCC = 60 - 12 + 5$
$CCC = 95 \text{ days}$	$CCC = 53 \text{ days}$

### Improved CCC by 42 days



With PO financing alone, the Gregory brothers shorten their cash cycle by 12 days. If they also take advantage of factoring their customer invoices, they could shorten by 32 more days, so their cash cycle is dramatically shortened. **That's a big difference from the 3-month timeframe without financial support.**

[Want to know more about PO Financing, or need help choosing a funding solution? Click here.](#) 

**NEXT: HOW A STRONG CREDIT RATING CAN EXTEND YOUR PURCHASE TERMS...**



# FINANCIAL SOLUTION #4



**Purchase Financing Program  
(PFP)**

**A QUICK WAY  
TO TAKE  
ADVANTAGE  
OF SUPPLIER  
DISCOUNTS**





**Purchase  
Financing  
Program**

## SOMETIMES YOU'LL COME ACROSS A BUSINESS DEAL THAT'S TOO GOOD TO PASS UP, BUT THERE ARE SHORT TERMS FOR PAYMENT, OR WORSE YET... NO TERMS.

That's the time when **working capital is crucial**, and there's a **quick solution** to get you the necessary capital.

For instance, if your supplier network offers a **limited-time bulk sale**, you can take advantage of that deal with the **Purchase Financing Program (PFP)**. This **doesn't tie up any working capital** to finance the cost of the payment, so you can keep your day-to-day operations intact. PFP is a very attractive solution for companies that already have a strong credit rating but may have maxed out their bank loan options, or need a **faster solution**.

### PFP PROGRAM - 5 STEPS



No matter where your supplier is located, your **in-transit inventory can be financed**. That inventory can be goods for resale, inventory or consumption. You receive the goods, then pay the PFP invoices as agreed. It's that simple.

The Purchase Financing Program can effectively reduce your CCC by extending your purchase terms. If you have the ability to pay in regular terms, but not the short or no terms set out by the supplier, we can help you.

### EXAMPLE: GETTING A GREAT SUPPLIER DEAL

Jacksons Preserves, run by Meg Jackson, is a 30-year family-run business with excellent sales, suppliers, a dedicated customer base and a strong credit rating. It's currently quarter-end when Jacksons pays out many expense and payroll bonuses, and their main supplier has just offered a deep discount on an overstock of canning supplies. The catch? Payment is required on delivery (COD), and it's first come, first served.

Jacksons holds inventory for an average of 14 days before shipment, has a standard net-30 day payable terms, and gets paid on average after 60 days. If they take the discount, they'll be left tight on capital after also paying the bills.

Jacksons calls up their Liquid Capital partner to use the Purchase Financing Program and snag this supplier deal while it lasts. Liquid Capital pays the supplier directly, deferring Jacksons' payables outstanding for this transaction to 30 extra days, giving them time to gain working capital from other sales.

ORIGINAL CCC	USING THE PURCHASE FINANCING PROGRAM
$CCC = DIO - DPO + DSO$	$CCC = DIO - DPO + DSO$
$CCC = 14 - 0 + 60$	$CCC = 14 - 30 + 60$
<b>CCC = 74 days</b>	<b>CCC = 44 days</b>

### Improved CCC by 30 days



In this instance, Jacksons has an **extra 30 days of breathing room** to pay the expense on their supply deal. By taking advantage of the discount, their **production expenses were decreased and profits increased**. This more than paid for their short-term financing solution.

[Want to know more about the Purchase Financing Program, or need help choosing a funding solution? Click here.](#) 

NEXT: GETTING STARTED...



## SECTION 6

# WE CAN PARTNER WITH YOU



PICK THE  
RIGHT PARTNER:  
**LEARN MORE..**



The **cash cycle** alone cannot be a complete indication of liquidity, and you'll need to look at calculating other metrics like the **current ratio** and **quick ratio** to paint a complete picture. Calculate all of these metrics and track the changes over time.

**By shortening your cash cycle, you'll be able to deliver on new orders, and improve your operations timelines, pay staff on time and invest in new growth strategies.**

## Finding the right commercial finance partner



We have local Liquid Capital Principals across North America who can help you **access up to \$5 million of funds** to improve your working capital and grow your business.

**Our best-in-class service is delivered through a local distribution network.** Liquid Capital has the most points of presence of any working capital provider in North America, meaning you deal with **local decision makers who understand your market, your business and your needs.**

Our network works directly with small and medium-sized businesses across many industries. We will consider your strategic goals, existing financial structure and **we value long-term business relationships with company owners and entrepreneurs** – not one-time transactions and online-only lending.

Interested in shortening your cash cycle and learning more about our financial solutions? Connect with your local Liquid Capital Principal who can walk you through the process.



*Additional contact info is on the following page...*

Need more information?

Call:

**1-844-228-0800**

Visit:

**[www.liquidcapitalcorp.com](http://www.liquidcapitalcorp.com)** 

**Website quick links:** [Accounts Receivable Factoring](#) / [Asset Based Lending](#) / [Purchase Order Financing](#)  
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