Shhh...Don’t Say “Recession”

Joe Becker, CPA

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Perception is reality. Some experts have suggested that if we talk about a recession, then act like we are in one, we may just create one.

What does this mean for those of us in the printing industry? With the industry’s economists predicting sales from no growth to a loss in sales of 5-10% for 2008, how should we react?

For one thing, we need information. Information that is current—even *daily*. Most of us have great management information systems (MIS)--systems capable of regurgitating a vast amount of information; “stuff” about sales, customers, production by the hour, by the impression, by the operator, won/lost, financial data, etc. It’s almost too much data.

We have to determine which data is the most meaningful and how frequently the data should be reviewed. As this downturn or recession plays itself out, we need to be proactive in how we manage our companies. Decisions have to be made based on current information that is assessed daily, weekly, monthly, and quarterly.

A word of caution: we should make the adjustments we feel are necessary to see us through what could be very difficult times. However, we should not strip our companies down to the point that we make ourselves unable to respond when the “worm turns.” We have to be positioned in such a way that we can immediately react to the opportunities as they present themselves.

What’s the Plan?

What are the most important metrics? How about this:

<u>Cash Budget</u>

Prepare and monitor cash collections on a daily and weekly basis. We should know our minimum weekly cash needs. A metric --- *our weekly cash needs. (Continued)*

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Shhh…Don't Say Recession

Joe Becker, CPA *(Continued)*

Accounts Receivable

An aging report should be prepared and distributed to management and the sales force weekly.

Invoices should be prepared and mailed, emailed, delivered, faxed, etc., within *two days* of shipment. Yes, I said two days of shipment. Every day of delay in billings represents—for a $10,000,000 printer—approximately $28,000 of cash which is out there somewhere. For sure, we don't have it.

A metric—*Day's Sales Outstanding (DSO) not collected*. The industry benchmark of aging of 51 days is unacceptable. The target should be 45 days, which is absolutely reasonable.

Invoicing

We should know what sales volume we need daily and monthly to at the very least breakeven and/or to achieve our bottom line target. A metric of that amount measured on a daily basis is so vital

Bookings and/or "Jobs in the Shop"

Keeping track of where we are by waiting for last month's financial statements is like anticipating the revival of the dinosaur. Here are two important metrics that should be measured at least weekly: (1) Bookings and/or (2) "Jobs in the Shop". After several weeks you should be able to assess where you stand now--not 45 to 50 days later when the financials arrive, reporting on your company's history; when it may be too late to be pro-active.

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Metrics Bookings/Job in the Shop, Customers, Quotes Won/Lost

It is during the most difficult times that we should be paying particular attention to our most valuable assets:

- Customers
- Our People
- Vendors

Of course, we think that our relationships are solid. However, it is when the competition is also experiencing difficulties that our relationships are put to the test. Our customers should know, by frequent contact, that we are here to help them through their issues with suggestions for reducing costs, improving their marketing efforts, etc.

One of the metrics that needs our special attention is quotes—number and the won/lost ratio. This information will help you assess your customer response to the efforts that involve customer contact.

Financial Statement/Ratios Metric

Now here is a "bunch" of information that is supposed to tell us how we are doing. The Problem: We are presented with this data anywhere from 15-45 days after the fact.

It is recommended (and don't laugh) that financial be completed within *two days*—yes, two days—after the end of the month. This historical information is virtually useless 15 to 30 days after the fact.

I know the objections. We don't have all the billing completed; we don't have all the vendor invoices in that time frame, we always review the financials on the 25th of the following month; we are too busy…Wow, how about that?

First, let's look at invoicing. Remember, for the $10,000,000 printer, $28,000 of cash is at issue for every day that is not invoiced. What are the obstacles? *(Continued)*

Shhh...Don't Say Recession

Joe Becker, CPA *(Continued)*

All the costs are not recorded. That's a laugh since 90% of the time, the costs do not change the selling price. Or, the salesperson has to review the invoice. How sick is that excuse? The salesperson should have no more than 24 hours, then it is out of here.

Second, we can estimate the delayed vendor invoices. The estimates will not be more than 5% to 10% off of actual.

Third, except for sales, nothing is more important than using information to make decisions now, not 15 to 20 days from now. It may be too late.

Financial Statements

Your income statements should be in the format recommended for printing companies, something like figure 1 (also see the *PIA/GATF Ratios* Studies).

As a recap, your metrics should include:

Daily:
Cash
Bookings
Jobs in the Shop
Weekly:
Quotes won/lost
Monthly:
Days Sales Outstanding (DSO)
Financial Statements and Ratios

In summary, Metrics Matter! Every printer has his own "Hot Points", represented by information that will allow us to weather whatever financial storm is in our future. So find your "Hot Points", track them regularly, and remember--if you can't measure it, you can't fix it.

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Figure 1: Sample Financial Statement
(based on PIA/GATF Ratios)

	Sales $	%	Value Added
Sales	$800,000	100%	
Materials/Outside Sales	280,000	35%	
Value Added	$520,000	65%	100%
Direct Labor	$200,000		
Factory Expense	$120,000		
Gross Profit	$200,000		
Administrative	$80,000		
Selling Expense	$85,000		
Total Admin & Selling	$165,000		
Income Before Interest Expense	$45,000		
Interest Expense	$20,000		
Operating Income	$25,000		
Other Income	$5,000		
Pre-Tax Income (Profit)	$30,000	3.75%	5.77%

Ratios-To review quarterly metrics
Example-A $10,000,000 Printer

Debt to Equity		
Total Liabilities		$6,000,000
Equity		$2,000,000
Ratio	3.0 to 1	
Target	2.5 to 1	

Current Ratio		
Current Assets		$2,000-,000
Current Liabilities		$1,800,000
Ratio	1.1 to 1	
Target	2 to 1	

And the most important Ratio

Cash Flow Coverage		
Income		$350,000
Depreciation		$600,000
Interest Expense		$150,000
EBITDA		$1,100,000
Principle Payments on Term Debt		$730,000
Interest Expense		$150,000
Debt Service		$880,000
Ratio	1.25 to 1	
Target	1.75 to 1	