

Gene Marks Talks Lessons From a Pandemic: “Cash is King”

PAYCHEX
Business
Series

Coronavirus



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Full transcript

Gene Marks:

Hey everybody. This is Gene Marks, and welcome to season two of the Paychex Business Series podcast. We had a great time and got many, many people listening in our first season. In our first season, if you know by now, was really addressing the coronavirus pandemic and how small business owners were coping with it, what they were doing to survive, how they planned on emerging, and what they were doing to keep the lights on and navigate their way through the pandemic.

We talked to some great experts, we talked to lots of business owners, we even talked to a pretty well-known comedian about how he was surviving as well, and we had a good time doing it. But now we're ready for season two. We're heading into the late summer, and different issues are now portraying themselves for small businesses, and these issues are: reopening and getting back to business.

That's what we're going to focus on in season two. We are, again, going to be talking to lots of people—some you may know, some you may not know, business owners and experts and a few surprises for you as well—all about certain things about running a business and emerging in this recovering economy. Because based on some of the latest data that Paychex has put together, there are some significant issues that are on all of our minds as business owners.

We have issues about reopening and how quickly and safely we can do it and ensuring the safety for both our customers and our employees. Many business owners are very, very concerned with getting back to profitable operations and how they're going to bring their customers back as well. All of these are big issues for small business owners and things that are very much on our minds.

Gene Marks:

In season two, though, we're going to be talking to a lot of important people and interesting people about a lot of these facts. But as you know, these episodes themselves, they're only about 15 or 20 minutes long, and they're really just ... I want to get to the points, I want to get some actions, I want to get some tips out of them, so that you can listen quickly, get some good information, and then be on your way. These are not long-form interviews, as you probably figured out by now, but this is my chance.

This episode right now, we're introducing season two, but, hey man, I've got 15 minutes to talk, and I've got a few things that I'd like to talk about as a CPA and a business owner and an author and also as a journalist. What I want to talk about is cash. There is nothing more important right now than the balances that are in our bank accounts.

If you have learned anything from this pandemic, and I think that you have, you've seen that the businesses that did have cash put away and saved were the ones that were best able to navigate through this unprecedented economic downturn. I have learned over the years that my smartest clients were always very prudent in how they managed their cash and followed some best practices in doing so. By doing that, they were able to stick some money away, and so that when the economy turns down, even as bad as it just did, they had money in reserve to be able to survive it.

Even if you're running a restaurant or you're a retail store, those companies that I know, and I have lots of friends that do that—they were forced to shut down for months on end, but they had money in the bank, and they had credit availability, and they were able to survive the downturn, and now they're working hard to get back up to normal operations.

Cash is king. If you have that cash in the bank, you can survive down times. If you can emerge from this pandemic with a few extra bucks in the bank, then there are some opportunities that you can take advantage of, because companies that have that cash in the bank are able to go out and hire new people or buy some equipment or create perhaps some inventory or even purchase a competitor. Because some companies are distressed and are not in great shape and looking to get out or looking to sell, and those companies that have got some dollars to spend, they've got some opportunities to take advantage of.

So in the time that I have in this introductory episode, as a certified public accountant, as a person that has been running a business for 25 years and somebody that has talked to thousands and thousands of smart business owners around the country, let me give you five specific tips for increasing your cash flow this year. You can follow along closely, and I'll be repeating them as I go.

So tip number one: First of all, you have to aim and target for six months of cash or cash availability. You might've ignored this advice in the past, but now you have learned this is advice that you have to follow. In the 25 years I've been running my business, honestly, I'd never seen such uncertain times. I mean, cases are still rising; we don't know if there's going to be a second wave; we don't know if there's going to be more shutdowns; we have a presidential election that's going to create uncertainty coming in. All of these factors are out there, and to have the most options possible, you need to have cash in the bank.

When business owners ask me how much cash should I have? You need six months of operating cash in the bank. How do you figure that out? You pull out your income statement from the past year, go back to your tax return, look at all of your operating expenses. Assume that you've got no money coming in, which therefore means you've got no purchases that you need to make if you buy and sell products. What do you need to spend, assuming there are no revenues but you still want to maintain your current operations. What is your rent, your utilities, your payroll, your health insurance cost, your internet cost?

Gene Marks:

All the monthly expenses that you have for your business, you need to come up with what they are. The best place to go to look for that, again, is your last 12 months of income statement or your prior year's tax return. If that's the case, you want to figure out what that monthly cash is, multiply it times six. You need to have six months of cash on hand. Now you might not have six months of cash in the bank, and if you don't, that still might be okay, because if you do have a relationship with your banker, you want to talk to your banker and make sure that you've got credit availability.

You need to have cash resources. It can be a credit line; it can be a working capital line; it could be credit cards—but you need the availability of cash equivalent to six months of your operating expenses for you to be comfortable and to navigate your way through any downturn in the future. That's the first cash management tip that I have for you.

The second cash management tip that I have for you is to have what's called a flash report. All of the best business owners that I've met over the years, they have some form of flash report. They don't sit around waiting until the end of the month to find out what their cash balance is or how profitable or not profitable they were—they are on top of their numbers every single day. The numbers themselves come from your accounting system and from other sources.

You don't necessarily have to be an accountant to get these numbers—you can get these numbers, have an administrative person put this together for you. But every single day, whether it gets emailed to you or whether you have a simple piece of paper that's sitting on your desk when you come into work every morning, you should have what's called a flash report. What's on it? Your cash balance, for example, from the day before. What are your open receivables? What are your open payables? How about your year-to-date revenues, for example, or your open orders, or your hours worked year to date, or your payroll expenses year to date.

Many industries have their own specific types of metrics that they like to follow, but those that I just mentioned—receivables, cash, payables, year-to-date revenue, year-to-date open orders, for example—those are some of the basic numbers that any business has. You want to know what those numbers are every single day. If I were to come into your office and say, "Hey, what's your cash balance today?" You should be able to say it's this. Or if I were to say, "What are your open receivables or receivables over 90 days?" It should come right off the top of your head.

The other key thing with a flash report, your flash reports should be comparing to some other prior period. So whatever cash you have today, you want to have a comparison to say the end of last year. Whatever receivables that are open today, you probably want to have a comparison to the receivables number, again, to the end of last year or the prior month, or if you're seasonal, the same month a year ago.

Why? Because if you tell me that my cash is whatever it is—is that good? Is that bad? Did it go up? Is it down? Is it below normal? Is it above normal? You have to be able to benchmark the numbers. So having a flash report with those key numbers on it, that is a core thing you need to do to manage your cash flow. Again, this is what I see from a lot of other successful business owners.

So, just to recap: six months of cash availability is what you want to target for, having a flash report every single day, critical for staying on top of your cash.

Gene Marks:

The third tip that I can give you for managing your cash is to forecast. A lot of people think that forecasting is a very difficult thing to do. You know what? It's really not as difficult as you think. Every month put out a spreadsheet. You put your year-to-date income statement on the spreadsheet—have your accountant or your bookkeeper help you. All I'm asking you to do is to take an hour out of every month and look forward to the next 60 to 90 days. Because when you look forward at the next 60 or 90 days, look at all of your expenses that you've incurred year to date—make your best forecasted estimate of what those same expenses are going to be over the next two to three months.

I mean, you know what they are: you know what your payroll's going to be, you know what your utilities are going to be. The tricky thing will be estimating revenues, of course, so you'll have to do that based on your experience, based on your back orders, based on what you normally do in a typical month like this.

Then the other thing you want to look at is will there be any special things coming up in the next 60 to 90 days: an estimated tax payment, a big debt payment that may be coming due, some special purchase that you made, maybe a big deposit coming in from a customer. Whatever the case is, you want to drop it that into your 60-to-90-day forecast. Why are you doing that? You're doing that because you don't want any surprises.

When it comes to cash management, the best cash managers that I've met over my career of working for smart business owners are the ones that don't get surprises. They might know that there are some big expenses coming up for the next 60 days, but they know it in advance, and they prepare for it in advance, and they put money away in advance so they can take care of it. That's how you manage your business like a pro, is when you know what's coming up in the future.

Of course, nobody can predict something like the coronavirus, and hopefully we won't have something like that, but you know what? If we do in the next 60 to 90 days, you want to make sure you've got a handle on your cash, so you can be thinking right now how you're going to handle that situation if it does occur. So six months of cash on hand, having a daily flash report, and creating a forecast every month. Critical, critical, critical.

The fourth cash management advice that I have for you has to do with your general ledger. Now most accountants know what your general ledger is, but you should know it as well as a business owner. You can ask your accountant to print it out, or your bookkeeper. The general ledger is the ledger in your accounting system that supports all of your financial transactions. It's basically the diary of your business. Whenever a payment is made, an invoice is made, a cash receipt is made, it's being logged into your general ledger in your accounting system.

So, here's what I'd like you to do. Every month print out your general ledger—and I mean print your general ledger. Believe me for most businesses, I don't know, maybe it's 20 pages, 30 pages long—it's not that big a deal, okay? Print the general ledger out, close your door, sit down at your desk with a cup of coffee or a shot of Jack Daniels, depending on how the month has been going, take out your blue or your red pen, and read your general ledger. Because when you run a business and when you're trying to manage your cash, the devil is in the details.

When you read through your general ledger, you're going to go through and probably have some questions for people in your company, like, "Who is ABC Distributors? I forget what we paid them for. Or how come we received money from this source? Or why don't we have any expenses recorded for utilities this month? Shouldn't there be? Am I looking at a double bill next month?"

Gene Marks:

You're going to have questions. I'm sure most of your questions will be answered satisfactorily, but at least you'll have the opportunity to go through the blood and guts of your company every single month and look at the details of what's happening within your organization, and you'll know it really well. When you do that, you will identify anything that is impacting cash, and you might be thinking of ways that you might want to change those things. Like, "Do I really need this expense? It seems like I'm being charged for this every month. Am I really getting any value from it? Maybe we should stop doing that." You will make decisions that will then have a positive impact on your cash flow by reviewing your general ledger.

So, having six months of cash availability—big. Having a daily flash report—big. Forecasting your cash for the next 60 to 90 days—that's a tough to do, that's big. Also, reading your general ledger—huge.

The last thing that I have for you has to do with just paying out cash. A lot of clients that I work with are a little bit disorganized when it comes to paying out their cash. Don't be. Change your payment practices. Have a new rule: you're only going to pay your vendors twice a month—just two times. I recommend the second Tuesday and the fourth Tuesday of every month. No petty cash goes out, no checks go out, no disbursements go out—nothing goes out except for the second Tuesday and the fourth Tuesday of every month. Some vendors might complain, but let me tell you, they'll still take your money when they get it.

Once you go through the transition of only paying out money twice a month, you will have an enormous amount of control now over your cash flow, because cash won't be all over the place and you won't be knowing what's been going out and what's outstanding and what you've got to pay—it's much more controlled. So just pay out your payables twice a month. That way, when you look at your cash, you'll see what your balances are, you'll see what's in the bank, you'll see what your open payables are. It won't be a moving target. It will be much, much more static, and you'll have a much better time of controlling your external disbursements.

So let me recap, because again, I want to keep this to the point and give you some action items. 2020, not a great year. The remainder of this year, it's going to continue to be tough. Season two of the Paychex Business Series podcast, we are going to be offering you ways and help to deal with your finances. We're going to be talking to business owners and experts about how they manage their people. We're going to be talking to business owners and experts about advice that they have and best practices for their operations, what technologies they're investing in, what they're doing to innovate with their company, how they're trying to get new customers. But in the end, all of that comes down to cash.

As the interviewer in this podcast, I'm going to be asking lots of questions from lots of smart people, because I want to learn as much as you do. But let me tell you something, I've learned a few things already, and I've learned five ways to increase your cash flow. If you do those five ways: you target six months of cash, you have a daily flash report, you forecast out 60 to 90 days, you read your general ledger, and finally, you cut back your payables to just paying out twice a month—that will have an enormous impact on your cash flow and put you in a better position to take on the challenges and listen to the advice from a lot of the great guests that we are going to be talking to.

So, that's my chance to do some talking. Now I'm going to be asking a lot of questions. So stay tuned, we have a lot of great episodes of the Paychex Business Series podcast coming up, and I look forward to you listening and joining in with me. Talk to you soon.



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