



What's Cash Got to do with it?

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Chicago
June 16, 2010





Agenda

I. Introduction

II. Cash – from an operations perspective

III. Lean – from a cash perspective

IV. Lean and Cash – financial examples

V. Closing remarks





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Value creation advice: governance, strategy

Alderman & Company Capital, LLC

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Investment advice for fund managers





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Cash from an operations perspective

For many companies cash is not a key indicator

- **It is just money in the bank or draw downs from a line of credit**
- **Checks are just written to pay the bills**
- **Deposits are just made when customers pay their bills**

Cash is often forgotten as a measure of the health of a business





Cash from an operations perspective

But cash is a GREAT tool for taking instant measurements of the health of your business's operations

Cash shows you when operations are going well (usually)

Cash shows you when operations are sound (usually)

**Cash is a great tool for monitoring
the health of your operations**





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Lean from a cash perspective

Lean increases cash by:

- **Improving costing and pricing**
- **Decreasing raw materials and WIP**
- **Reducing scrap**
- **Reducing re-work**
- **Increasing turns**
- **Reducing collection times**

Lean generates cash





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Model: Same Ending Cash

	Example 1	Example 2	Example 3	Example 4	Example 5
Starting Cash	500,000	500,000	500,000	500,000	500,000
Sales	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Gross Profit	3,000,000 <i>25%</i>	5,000,000 <i>42%</i>	3,250,000 <i>27%</i>	3,500,000 <i>29%</i>	2,000,000 <i>17%</i>
Op. Expense	2,000,000 <i>17%</i>	3,000,000 <i>25%</i>	1,750,000 <i>15%</i>	1,750,000 <i>15%</i>	1,250,000 <i>10%</i>
Pretax Profit	1,000,000	2,000,000	1,500,000	1,750,000	750,000
Taxes	400,000	800,000	600,000	700,000	300,000
Net Income	600,000 <i>5%</i>	1,200,000 <i>10%</i>	900,000 <i>8%</i>	1,050,000 <i>9%</i>	450,000 <i>4%</i>
Inventory (Growth)	(100,000)	(450,000)	(250,000)	(400,000)	(25,000)
Receivables (Growth)	(50,000)	(300,000)	(200,000)	(200,000)	25,000
Ending Cash	950,000	950,000	950,000	950,000	950,000





Model: Same Margins

	Example 1	Example 2	Example 3	Example 4	Example 5
Starting Cash	500,000	500,000	500,000	500,000	500,000
Sales	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Gross Profit	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
	25%	25%	25%	25%	25%
Op. Expense	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
	17%	17%	17%	17%	17%
Pretax Profit	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Taxes	400,000	400,000	400,000	400,000	400,000
Net Income	600,000	600,000	600,000	600,000	600,000
	5%	5%	5%	5%	5%
Inventory (Growth)	(100,000)	(250,000)	(250,000)	(400,000)	(25,000)
Receivables (Growth)	(50,000)	(50,000)	(200,000)	(200,000)	25,000
Ending Cash	950,000	800,000	650,000	500,000	1,100,000





Working Capital Examples

	<u>Example 1</u>	<u>Example 2</u>	<u>Example 3</u>	<u>Example 4</u>	<u>Example 5</u>
Inventory (Growth)	(100,000)	(250,000)	(250,000)	(400,000)	(25,000)
Receivables (Growth)	(50,000)	(50,000)	(200,000)	(200,000)	25,000
Sales	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Gross Profit	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Cost of Good Sold	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
Starting Inventory	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Ending Inventory	2,100,000	2,250,000	2,250,000	2,400,000	2,025,000
Days Inventory	85	91	91	97	82
Starting A/R	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Ending A/R	1,550,000	1,550,000	1,700,000	1,700,000	1,475,000
Days Receivables	47	47	52	52	45





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Changes in cash can indicate changes in your success with lean

If cash is increasing, you are most likely doing a good job implementing Lean:

- Your margins are probably rising
- Your working capital is probably declining

If cash is decreasing, you are most likely not doing a good job implementing Lean:

- Your margins are probably declining
- Your working capital is probably rising

Cash is an important metric to include in your Lean toolkit





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