

CASH IS KING

How well are you travelling in cash management?

Despite all the books on business published since the year dot which explain why a business fails, it is quite simple why a Hardware Store goes out of business. Answer – it runs out of cash.

How well are you managing your cash cycle? In the past 12 months more Hardware stores are feeling the effects of a blow out in debtor days due to the GST.

Suppliers are putting the acid on stores for prompt payment to generate cash flow to meet their GST obligations.

The effect of all this is an unprecedented pressure on cash flows and cash management in the Hardware Retail Industry. We can all be fortunate that interest rates on borrowing are as low as they are.

To measure your cash management performance, you can calculate your cash cycle.

The cash cycle takes into account the three trigger points for cash flow in a Hardware store:

1. How quickly you turnover your stock: Stockturn
2. How quickly you collect your accounts: Days Debtor Outstanding
3. How quickly you pay your bills: Days Creditors Outstanding

CASE STUDY : “I’m Nearly Gone” Hardware Store

Sales		\$3,000,000
Opening Stock	\$ 650,000	
+ Purchases	\$2,250,000	
= Available Stock	\$3,000,000	
- Closing Stock	\$ 700,000	
= Cost of Sales		\$2,300,000
GROSS PROFIT		\$ 700,000
Debtors Outstanding (average)		\$ 570,000
Creditors Outstanding (average)		\$ 290,000
CALCUALTION 1:	Stockturn	

$$\text{Stockturn} = \frac{\text{Cost of Sales}}{\text{Average Stock}^*}$$

* Opening Stock + Closing Stock ? 2

$$= \frac{\$2,300,000}{\$675,000}$$

$$= 3.4 \text{ Stockturns}$$

CALCULATION 2: Days Stock on Hand

$$\text{Days Stock on Hand} = \frac{365}{\text{Stockturn}}$$

$$= \frac{365}{3.4}$$

$$= 108 \text{ Days}$$

CALCULATION 3: Days Debtors Outstanding

$$\text{Days Debtors Outstanding} = \frac{\text{Average Debtors Outstanding}}{\text{Account Sales}^*} \times 365$$

* For this case study all sales are account sales

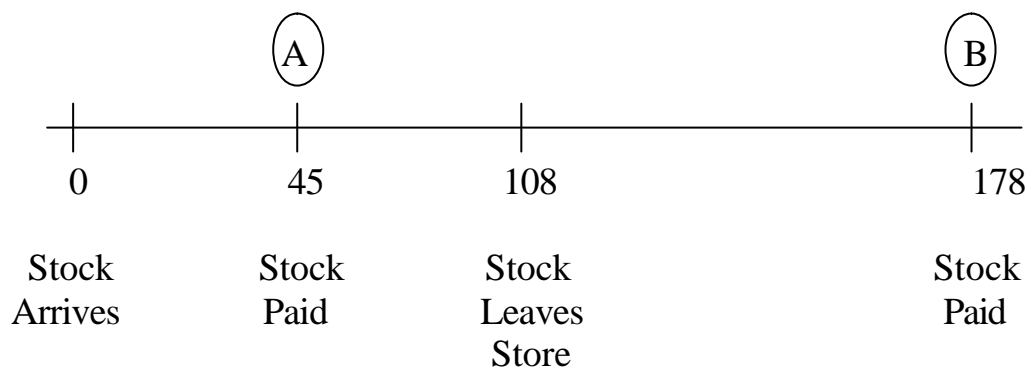
$$= \frac{\$570,000}{\$3,000,000} \times 365$$

$$= 70 \text{ Days}$$

CALCULATION 4: Days Creditors Outstanding

$$\begin{aligned}\text{Days Creditors Outstanding} &= \frac{\text{Average Creditors Outstanding}}{\text{Purchases}} \times 365 \\ &= \frac{\$290,000}{\$2,350,000} \times 365 \\ &= 45 \text{ Days}\end{aligned}$$

With these calculations complete, we can calculate this store's cash cycle.



The aim to survive in this highly competitive industry is to get A and B as close as possible.

If the difference in this store is 133 Days it is under threat from running out of cash.

So what is the optimum in Retail Hardware?

Aim to turn your stock at the optimum of 6 times a year. Ie 60 days.

Collect your accounts in 45 days.

Pay your accounts on average 45 days.

So the cash cycle should be 60 days.

So how are you performing?

Try the cash cycle test.

Remember – CASH IS KING