How a CFO Can Help You Generate More Cash in Your Business

By Leigh Paulden

As an internationally certified Gazelles Business and Executive growth facilitator Leigh works with businesses serious about growth. As director of Scalable Sustainable Business Growth, he brings proven tools, world-class intellectual property, and time-tested growth concepts to reduce your business pains.

Your accounting team is most often seen as a pure overhead and many businesses under-invest in this part of the organisation. Verne Harnish, Gazelles International founder, believes the best investment a company can make is to boost the numbers side of the business. Hiring just one additional accounting clerk or CFO (even part-time) can double profitability and cash within twelve months.

So how can a CFO help your business the most immediately? Here are three ways:

1. Guidance on pruning

Regular pruning is critical to the growth of plants; the same goes for your business. The critical factor is knowing where to prune and how much to remove. And during turbulent times, it's often advisable to prune deeper and harder. However, before you start, you need accurate data to direct the secateurs.

Study your spreadsheet, particularly the gross margin dollar contribution (or just revenue) by product/service listed in descending order. Then work down the list and draw a line when you reach 85% of your total revenue or gross margin dollars. Seriously consider removing the rest, then redirect the energy and focus of these underperforming activities into your top performers.

Repeat this exercise with your customers, try raising prices on your least loyal, they will either become more valuable or leave. Obviously, this needs to be handled carefully and the future lifetime value of each needs to contribute to your actions. Use your accounts team to do the sums and provide this data.

Continue the exercise by location, opportunities, distribution channels, etc. Then you and your management team will have the information required to make the critical resource distribution decisions.

2. Daily cash balance

Being short of cash is not a good place to be, therefore get a cash report every day. CEOs tend to focus more on the P&L and ignore their cash flow and balance sheet reports – don't!

The daily cash report lets you know what cash is on hand across your bank accounts, lists what has come in and gone out in the last 24 hours, and provides an indication of what's expected to come in and out.

By "following the cash" on a daily basis, you will better understand your business and how cash moves through it. You can then use this information in decision making – the structure of contracts, business arrangements, and you can avoid cash sapping activities.

3. Cash conversion cycle

You need to understand the length of time it takes from when you spend a dollar (payroll, overheads, marketing, R&D, etc) to when it makes its way back into your account. This is one KPI every CEO should know and monitor.

From this, you can determine how fast you can grow on your own internally generated money. If you can use your own cash to fuel growth, will have advantage over those who have to raise funds.

Understanding the flow of cash through the business also highlights where improvements can be made:

- Do you need to get invoices faster or more often?
- Do you need to get paid faster?
- Should you receive larger upfront payments
- Or, can you reduce your sales or delivery cycles?

Spending money to make money

Implementing these ideas will likely cost you more initially, but many of your cash challenges are probably due to an under-resourced accounting department. So add the expertise needed and the extra spent should pay for itself in a short time.