

Cash Flow



The Objective:

The following exercise can be used to demonstrate the flow of CASH through the business and to highlight the many decisions that must be made in order for the company to not only survive, but prosper.

Approximate Time Required

Prep Time: 30 minutes

Play Time: 15 minutes

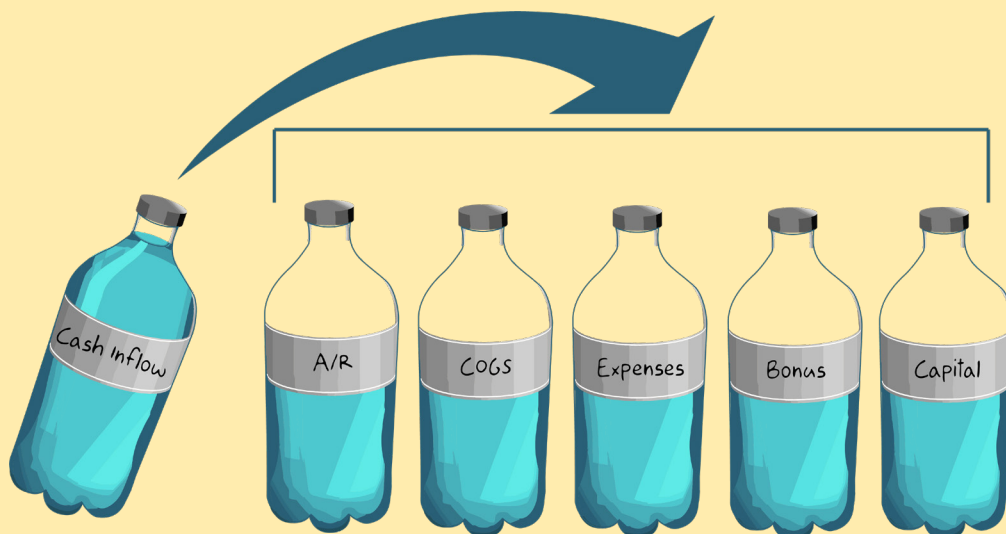
Material Needed:

- 8 to 10 – clear 2-liter soft drink bottles
- Black marker
- Food coloring
- Cash Flow System Graphic (attached)

How it Works:

Display the company's financial performance using the Cash Flow System graphic. Make it large enough for everyone to see. First, identify two of the bottles as your sources of Cash (i.e Sales and Lenders). For example, using the black marker write Sales on the side of one of the 2-liter bottles.

Next, write the name of each Cash 'Outflow' line item on the remaining bottles. For example: COGS, expenses, capital investments, etc.



To begin the exercise, explain to the group that the water in the first 2-liter bottle represents the Cash Inflow , Sales (our primary source of CASH). While explaining and educating everyone on each Cash Outflow line item, slowly fill each of the other 2-liter bottles to its respective share of the total Cash Inflow. As each bottle is filled, be sure to highlight to everyone how much water is left in the original bottle. As an option, add food coloring to each bottle to make it easier to highlight the various line-items.

From here you can begin to demonstrate several different Cash Flow scenarios: For example, as you progress from the income statement to Outflows such as Capital Investments, Debt payments etc. , explain to the group how a company can be very profitable, but still run out of CASH.

For example, at the beginning of the exercise pour some excess water in the Accounts Receivable bottle to represent additional Sales on credit. As you proceed through the exercise you will begin to run out of water before you reach some of the bottles, such as Debt payments. You can now ask the group questions like: What options do we have? What about the extra water in the Accounts Receivable bottle? How can we use some of that to pay our bills?

You can also show the group what decisions need to be made when we have excess CASH and how these decision can sometimes be just as difficult as when we are short on CASH. Good luck and have FUN!

Provide the following handout to your team while demonstrating the training bite.

Handout

The Path to Ownership

ESOPs are a great way to transfer ownership to employees. But, in all reality, this will only happen if the ESOP can come up with the CASH to buy the shares. In order to continue to transfer the ownership, the ESOP, like any other Investor, needs a source of CASH. One approach is to simply ask the employees to contribute the CASH. Although a real option, SRC has chosen to fund the ESOP with the CASH generated by the company's performance. So, you're off the hook! Or are you?

WHO GENERATES THE CASH?

You do! — by the decisions you make and the actions you take everyday to improve the company's performance. It's up to you and your fellow employee owners to fund the ESOP. Many of you have asked — "How long will it take to transfer 100% of the ownership to the ESOP?" To answer that question, we must first answer this one — How long will it take us to generate \$21 million+ in CASH? At the current stock price, this is how much CASH the ESOP needs in order to purchase the remaining 37% of the ownership. How do we get \$21 million in CASH? By learning how the company makes money. This includes understanding how profitability is driven, how assets are used, how cash is generated, but most importantly how your day-to-day actions and decisions impact the company's success. So, let's get started...

Cash is King

In business, there isn't anything more important than CASH. CASH is the oxygen of the business that enables a business to survive and prosper. While a business can survive for a short time without sales growth or profits, without CASH it will die. For this very reason the inflow and outflow of CASH must be carefully watched and managed. CASH generation is the difference between all the CASH that flows into the business and all the CASH that flows out of the business. Picture a large plumbing system where water is flowing into the system (sources of CASH) and at various junctions along the pipe water is flowing out of the system (uses of CASH). And at each junction there is a lever (your decisions and actions) that can be used to increase or decrease the flow of water in or out. A plumbing system manages water flow, and a business manages CASH flow. Cash flows into the business from sources like the sales of its products and from lenders or investors. CASH flows out of the business for items like wages, materials, sales made on credit, equipment purchases, inventory, and tax payments. A smart businessperson will always ask the questions, is the business generating enough CASH? What are the sources of CASH? How is the CASH being used? A businessperson who fails to ask these questions will ultimately regret it.

Let's take a look at our CASH flow system.

