Don’t Dam Your Cash

Presented By Jon Zurcher

Accounts Receivable Takeaway

“Focus on Accounts Receivable Flow and Quality”

Measuring Quality: The Accounts Receivable Aging Report is your best measure of “Quality”

	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 61 Days
Healthy	**83.40%**	**10.90%**	**3.50%**	**2.20%**
Unhealthy	**45.30%**	**19.30%**	**7.00%**	**28.40%**

Collectability Matrix: The further past-due an account gets, the less likely you are of collecting it!

90 Days Past Due... **75%** Chance
At **6 Months** Past Due... **55%** Chance
At **9 Months** Past Due... **43%** Chance
At **12 Months** Past Due... **25%** Chance
At **2 Years** Past Due... **12%** Chance

Measuring Flow: To measure receivables “Flow” calculate the Number of Days Sales in A/R

Accounts Receivable ÷ Average Daily Sales **OR** **Accounts Receivable ÷ (Annual Sales/365)**

Example:
Receivables of $125,000 ÷ Avg Daily Sales of $4,167 = 30 Days of Sales in A/R

Don't Dam Your Cash

Presented By Jon Zurcher

Accounts Receivable Takeaway Continued

Tips From Katie...

1) Consider extending credit through a **Third-party Credit Provider** when possible.

The Mr. Tire/Big 3 Tire Associate Dealer Program offers a branded Synchrony Credit Card or additional financing options through WestCreek Financial.

The Major Brand Manufacture Associate Dealer Programs also offer branded credit cards and consumer financing options as well.

2) Best Practices For **Extending Credit** include:

• Make sure you have a strong credit application with terms & conditions on how your customer is expected to pay after receiving credit.

• Use a business credit reporting tool like Dun & Bradstreet.

• Ask for references on the credit application and give those references a call.

• Have a procedure & credit policy in place: Who in your location can extend credit? What minimum requirements must be met before credit is extended? What is a reasonable amount of credit to be extended given the circumstances?

3) Best Practices for **Keeping Accounts Current** and **Collecting Past Due** accounts:

• Ensure your customer receives the invoice promptly at the time product changes hands or service is provided.

• Call customers that are not paying as soon as possible.

• Turn over to collections by time accounts are 120 days past due.

•Have clear expectations with customers.

Don’t Dam Your Cash

Presented By Jon Zurcher

Inventory Takeaway

“Focus on Inventory Flow and Quality”

Inventory Turns: To measure your company’s **Inventory Flow**, calculate inventory turns.

Calculation:
Annual Cost Of Goods Sold
÷
Inventory

Example:
600,000
÷
100,000
= 6.0 Turns

Examples Of Average Inventory Turns By Store Type

	Average	High	Low
Retail Store	7 Turns	10 Turns	4 Turns
Commercial/TBR Store	6 Turns	10 Turns	4 Turns
Retail, Truck & Farm Store	5 Turns	8 Turns	3 Turns
OTR/Industrial Store	3-4 Turns	5 Turns	2 Turns

If you are in the high range, keep it up! If you are in the low range, getting to average or high will greatly improve your cash flow.

Three ways to improve inventory flow & quality...

1) Set a min-max stocking levels in your point-of-sale system

2) Only stock “A” movers and rely on K&M for carrying the “B, C, & D” movers

3) Have a process for tracking special order tires through the sale

Bonus Tip: Make sure you’re taking an annual physical inventory at year-end and providing that inventory to your accountant or tax return preparer for the book to physical inventory reconciliation.

Don’t Dam Your Cash

Presented By Jon Zurcher

Gross Profit Takeaway

“Pour More Water Into The Top Of Your Circle Of Cash”

Key Points: Increase your **Gross Profit Margin On Product** and **Sell More Service**

• Offer and sell **Preventative Maintenance**:

For most retail stores, performing and selling one additional “flush” per day will provide a 1% increase to the store’s overall Net Profit.

1 Flush Per Day = **1% Increase** in Net Profit
2 Flushes Per Day = **2% Increase** in Net Profit
3 Flushes Per Day = **3% Increase** in Net Profit

• Offer and sell a **Road Hazard Policy**:

1) Considering pricing the Road Hazard Policy with a store minimum such as $12.99 per tire or 10% of the price of the tire (*whichever is greater*). In this example, for tires up to $130, it would $12.99 per tire; and anything over $130 would be 10% the price of the tire.

2) Add Road Hazard as a line item on your new tire installation kit, so it comes up automatically along with mounting, balancing, valve stems, disposal, and new tire fees. This is a helpful reminder to “*ask for the sale*”.

• How to implement a **Shop Supplies Fee**:

1) Research your competition. Find out what they are charging. (*Many locations are charging a fee between 6-8% on Parts & Labor Sales*)
2) Program your computer to automatically include it on every quote/invoice.
3) Openly display your new policy for customer to review.
4) Communicate it to your team internally.
5) Establish a minimum standard. (*Possibly start with 2%, and increase from there*)
6) Track it weekly, then monthly until it becomes habit.
7) Reward it - **if possible**.

Don't Dam Your Cash

Presented By Jon Zurcher

Expense Reduction Takeaway

"Plug Holes To Keep More Water Inside Your Circle Of Cash"

Best Practices To Reduce Expenses:

1) Closely monitor expense by either signing checks or reviewing bills, so you can personally observe all your outgoing payments for expenses. Each bill/payment represents water leaving your circle of cash.

2) Take your monthly P & L and three highlighters. Go through your operating expense line by line and use the first highlighter to highlight all the operating expense lines that you have total control over. (*This is your priority list.*) Use the second and third highlighters to identify expenses that you have either partial/moderate control over or no control over. Focus your attention on expense category by level of influence.

3) Measure Payroll Productivity. Payroll is the largest operating expense on your P & L.

- When calculating Payroll Productivity, we're measuring how many dollars of gross profit we are generating for every one-dollar spent on payroll.

Example:

Gross Profit ÷ Payroll Expense	$600,000 ÷ $300,000	=	**$2.00 : 1 Payroll Productivity** For every $1.00 spent on Payroll we are generating $2.00 of Gross Profit

Industry Averages:	**Average**	**High**	**Low**
Retail Store	**$2.00**	**$2.30**	**$1.70**
Commercial Store	**$2.10**	**$2.40**	**$1.80**
Retail, Truck & Farm Store	**$2.00**	**$2.30**	**$1.70**

For this calculation, Payroll Expense is gross wages including holiday and vacation pay. It does not include employer payroll taxes or other potential employee benefits such as health insurance. If you are in the average to high range, keep it up! If you are in the low range, increasing your payroll productivity will improve your cash flow and net profit.

Best Practices to **Reduce Overtime**:

1) Set a store goal of reducing overtime by 50% in 2021

2) Take your total number of overtime hours paid last year in 2020 and divide that number in half to get 50%. Divide that number by 52 weeks. This is your new weekly goal for 2021.

3) Each week track and compare your weekly overtime hours to your weekly goal. Remember, *what gets measured, gets managed*!