

## **Cash is a Verb – not a Noun!**

By Leon Grandy

I've spent most of my adult life either addressing or being consumed by business issues, whether as a banker, an adviser, a Director or for the last 10 years a part-owner of my own small business.

Despite the many complex reasons given to me for any business issue or problem over the last 27 years, my analysis of the numbers suggests that there is some good news and some bad news.

The good news is that so far in my career, about 90% of the cause of all business issues are caused by cash constraints, the bad news is, that so far, about 100% of those issues are best considered by looking in the mirror at who is responsible, rather than out the window at the competitive landscape. The following article is in three parts, I hope it's helpful.

### ***It's just like cricket***

I briefly worked with a former Sheffield Shield wicket keeper we shall call "Strangles." Strangles was the State Manager NSW for HSBC and he explained to me that Cash Flow crises were like the batsman who constantly gets caught behind or by the slips cordon – he said it's "too much fine, and not enough cut," essentially: its either that the batsman is too timid and is not trying to hit the ball hard enough or they are too clever but inaccurate in their execution.

Cash Flow is exactly the same.

When I talk to businesses: big or small, it's all about "too much Flow and not enough Cash," often the problem is that whoever is responsible and accountable: the Owner, the Board, the CE or Treasurer, is involved in too much naming and not enough doing.

But if you're an SME in NZ you can't really sack yourself and therefore most of your staff, and get better talent: in the US it's a bit different, in the US you are an SME if your sales are less than a \$1bn and you employ less than 500 employees!

In NZ, we need to get our mind-sets right: Cash is a Verb, not a Noun. If we want to fix our cash, then we must sort out three things:

- **Payment terms** are more important than price;
- **Reputations take years to build** and are lost in days, and
- Business is only about relationships – if you're **being abused** get out of the relationship.

### **Payment terms are more important than price**

New Zealander's are embarrassed by both failure *and* success: most NZ businesses do not price in an adequate return on owners labour and capital, instead somehow we feel that being wealthy and successful is anti-egalitarian.

Somehow, in the NZ business lexicon making money is equated to taking from our customers: so here is a truism - markets exist to ensure competition – if you are too expensive, if you do not add value, then you will be replaced as a vendor.

However, if you price too cheaply or simply don't apply any pricing disciplines in your business at all, then you deserve to fail at business, not to worry you, like charity and mercy, will be twice blessed: your customers will love you (until you go broke), and then you will also succeed in giving away all of your wealth.

However, if you don't want to be disciplined (who does it's like living a diet's isn't it?), then feel free to love your clients and harm your wealth but do be very firm on payment terms.

Every contract, every invoice, every receipt should include payment terms. The purpose of this repetition is to instill in you, your staff and your clients a pattern and expectation of behaviours.

For example, I've just come back from working in the Gulf, so far I've worked in Dubai, Qatar and Kuwait, and I've always been paid net seven days. Yet recently a CE of a large NZ consulting firm told me: they loved the Gulf despite having to do pre-contract work; variations that meant milestones were missed and delays of up to 90 days for payments, really?

I asked myself, is this some form of sadomasochistic love? Or is it an epistemological problem?

If you're doing pre-contract work, then by my way of thinking you're still winning the business. This sounds like an investment in the sales process, not recoverable or billable work (or perhaps it's a cultural misunderstanding, but whose misunderstanding is it?)

Variation's amend milestones and they cost more (yay margin!) but only if they are documented and approved first, and finally, large powerful rich clients are the best one because even though they take time to pay they are the easiest to get receivables finance on, from your bank or factor house, oh that's right you priced up this business with no margin so the fees and interest costs means you'll lose on this contract.

Oh well, never mind, at least if you're paid on time, you can pay all your bills and live to do a better pricing job next time!!

Don't be like the consultancy above – remember - ***Payment terms are more important than price, but if you get both right you'll succeed!***

Next week - ***Reputations take years to build*** but are lost in days, the hidden art of credit and credit worthiness.

Cheers from Houston TX,  
Leon