Bill’s Building Blocks

Cash Is King

It’s that time of year when you may have made the final payment for a summer vacation. And now, your checkbook balance is particularly low while your credit card balance is particularly high. You need to “watch your pennies” to slowly rebuild your cash position to its normal balance. No more Starbuck’s lattes for a while. You need to carefully manage your checking account up while paying your credit card down. For as long as you may take vacations these become seasonal patterns of your cash flow. The example below could be the picture of ten months of cash flow for a $1,000 vacation with $800 of credit paid back at a rate of $200/month.

Checking Account

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Starting Cash	300	402	304	408	510	412	316	218	120	196
+Receipts	150	150	152	150	150	152	150	150	152	150
-Disbursements	48	248	48	48	248	248	248	248	76	48
Ending Cash	402	304	408	510	412	316	218	120	196	298
		Down Payment								

Credit Card

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Starting Credit	0	0	0	0	800	608	416	222	26	0
+Spending	0	0	0	800	0	0	0	0	0	0
+Interest	0	0	0	0	8	8	6	4	2	0
-Payment	0	0	0	0	200	200	200	200	28	0
Ending Credit	0	0	0	800	608	416	222	26	0	0
				Final Payment					Interest	

Material, information, and cash are the three flow dimensions of a supply chain. The cash flow dimension is what differentiates the study of supply chain management from the study of logistics and/or lean six sigma. Each trading partner needs to plan, manage, and control its cash flow. Why is this so important?

A supply chain network needs to have enough throughput for each trading partner to generate a net revenue that covers its cost of goods sold, pays its employees, pays its expenses, pays back its debt, provides for its taxes, and has something left over for a profit. Keep in mind that the network constraint on throughput may fall outside the control of the trading partner. Any cash used to buy inventory is taken out of circulation until product is sold and the inventory can turn. If accounts payable to suppliers of any kind comes due before enough accounts receivable are paid by customers for product, then the trading partner becomes starved for cash. The company will have to borrow more funds, raise more credit, or potentially go out of business.

The cash-to-cash cycle is the amount of time, usually in days, between the trading partner’s suppliers requesting payment and the trading partner’s customers making payment. The cash-to-cash cycle is negative, and good, when the customer pays before the supplier gets paid. The cash-to-cash cycle is positive, and bad, when the supplier gets paid before the customer pays. The faster the velocity of the cash-to-cash cycle becomes, the better. Yes, cash is king!

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