

Cash Crisis Averted: Textbook Working Capital Management

Situation:

An unrecognized cash burn threatened the survival of a client with a 100-year history.

As part of a small financial engagement with a \$50 million public service and membership association, we identified that our client had an emerging cash flow problem. With credit lines exhausted, the cash burn rate indicated the organization would need to cease operations in 3-4 months. The Chief Financial Officer had a hunch that there was an issue but hadn't been able to fully size up the situation and, as a result, had not shared the bad news with the CEO of the organization. We worked with the finance team to quantify the severity of the problem and were hired to turn it around.

Early in the engagement we joined our client's staff in conversations with its primary bank and realized during the meeting that the relationship had already been placed in workout status. We now knew that our client would also need to either repair the existing banking relationship or find a new bank.

Stanton Blackwell's Role:

Implement strict working capital management practices and negotiate a new banking relationship

Our priority was short-term cash needs. We worked with the finance team to develop a simple but effective tool that tracked cash daily. From this we learned that if we managed carefully, the organization would have just enough breathing room to address longer term issues.

Once we had the facts, we worked with the operations teams to shore up their management of working capital. We established policies and procedures to manage accounts payable and worked with the collections team to accelerate cash receipts and resolve past due receivables. In the client's warehouse, inventories were turning less than once per year. We partnered with the business to establish new processes. Cash flow began to improve quickly.

Next, we assisted the client in approaching their bank to proactively communicate a clear path to recovery. We kept the bank informed of the monthly progress. Six months into the project we able to negotiate more competitive rates with a new banking partner for cash handling services, credit card processing, credit facility and credit enhanced tax exempt bonds.

Finally, we tackled the budget of the organization and addressed not just expenses, but revenues. We left no stone unturned for cost savings, price increases, reducing unearned discounts, and growth opportunities.

Result:

A new banking relationship and excess cash to fund growth

We took the client from their previous year's \$1.2mm use to a \$1.0mm source of cash. To avoid a repeat of this crisis, we worked with the finance team to develop a long-term cash flow forecasting tool. This allowed the organization to anticipate seasonal variations in cash inflows and outflows and to use their line of credit as it was intended, a short-term source of cash. The client continued to prosper and has grown from \$50mm to \$70mm in revenues in the time since our initial engagement.



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Anne Gehring is a Founding Partner of Stanton Blackwell. Throughout her career, Anne has led teams to solve complex problems through collaboration and structured execution. She has a passion for people development and has been a strong advocate for talent diversity since her career began over thirty years ago.

SIB About Stanton Blackwell

Stanton Blackwell is an advisory firm dedicated to the middle market and mission-based sectors. Our professionals provide operational and financial consulting, as well as leadership development, to address issues of business planning, capital adequacy, scalability and efficiency. We work closely with our clients to adapt to an increasingly complex operating environment and to enhance impact and business value.

Please visit our website www.stantonblackwell.com for more information.

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