

C-AE24 Strategic Business Analysis Module 9 Part 1

Financial Management Advisory: Re-Engineering the Corporate Cash Engine

Welcome to this hands-on masterclass where we ditch the accounting jargon and focus on one thing: **real-world cash velocity**. Growing companies don't fail because they lack customers — they fail because they run out of cash. Let's fix that.

ROSALINDA E. PEREZ, CPA, MBA, LPT



Cash Velocity Over Paper Profits

The Profitability Trap

A company can post record profits on paper while quietly marching toward bankruptcy. Accrual accounting hides the truth — **cash velocity reveals it.**

Why Velocity Wins

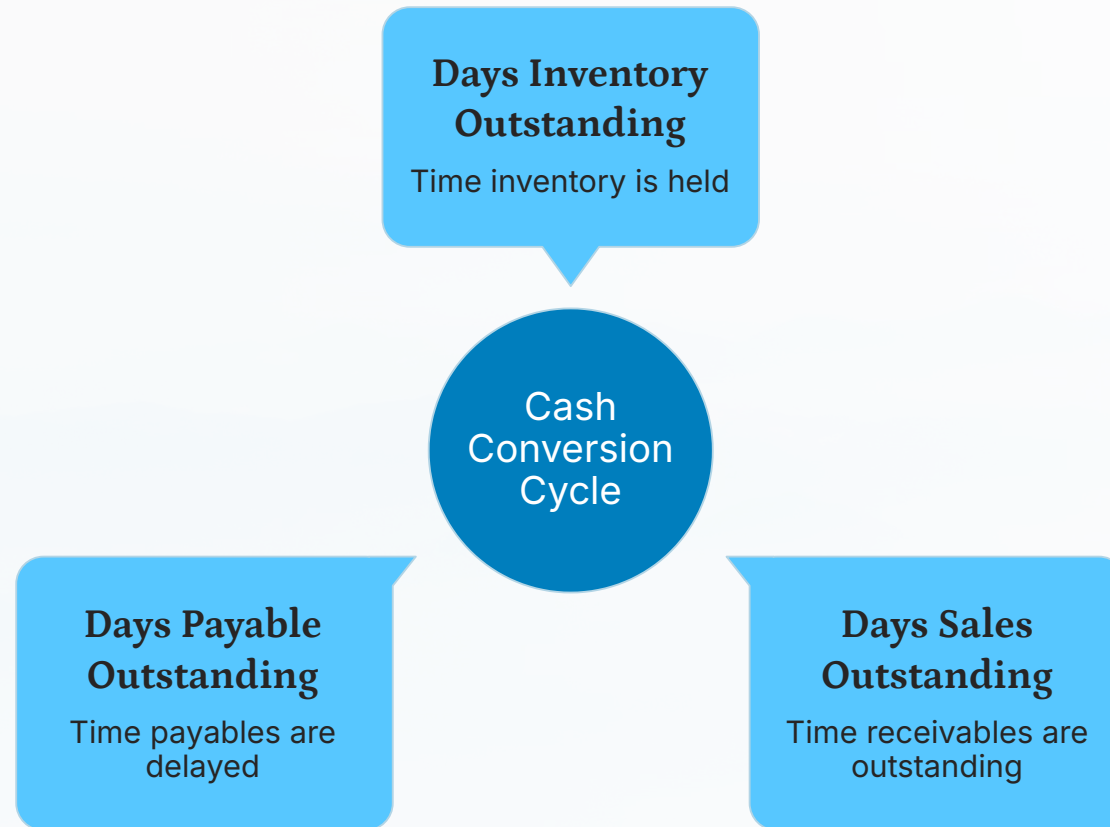
The faster cash cycles through your business, the less you need expensive bank loans or dilutive equity raises. **Cash velocity = competitive leverage.**

- ❏ Profitability funds the corporate narrative. Cash velocity funds corporate survival.



The Cash Conversion Cycle (CCC)

The CCC is your single most powerful diagnostic tool. It measures how long cash is tied up in operations before it comes back to you.



A **positive CCC** means cash is locked up. A **negative CCC** means suppliers are financing your business — the ultimate goal. An expanding CCC is a flashing red light every advisor must catch early.



Dimension 1: Days Inventory Outstanding (DIO)

What It Measures

How many days inventory sits on shelves before it's sold.

$$\text{DIO} = \frac{\text{Avg Inventory}}{\frac{\text{COGS}}{365}} \times$$

Why It Matters

- Unsold inventory = trapped cash earning zero return
- Carries hidden costs: rent, insurance, obsolescence
- Spikes in DIO signal demand forecasting failures

Dimension 2: Days Sales Outstanding (DSO)



What It Measures

How long it takes to collect cash after making a credit sale.

$$\text{DSO} = \frac{\text{Avg Accounts Receivable}}{\text{Credit Sales}} \times 365$$

The Hard Truth

A sale isn't real until cash hits the bank. Uncollected receivables are **interest-free loans to your customers**. High DSO = lax credit policies and weak collections.

Dimension 3: Days Payable Outstanding (DPO)

DPO tracks how long you take to pay your suppliers — and it's one of the **cheapest financing tools** available.

$$\text{DPO} = \frac{\text{Avg Accounts Payable}}{\text{COGS}} \times 365$$

Higher DPO = More Cash On Hand

Keeping funds in-house longer means more capital for high-velocity projects.

But Don't Abuse It

Ignoring vendor invoices destroys relationships, kills discounts, and risks supply cutoffs.

The Sweet Spot

Negotiate longer terms transparently — maximize DPO without damaging trust.

The Three Dimensions Are Deeply Connected

DIO, DSO, and DPO aren't independent — they're one living ecosystem. Touch one, and the others react.

→ Sales Surge → DIO & DSO Spike

More orders mean more inventory needed and more receivables outstanding.

→ Aggressive DPO → Supplier Retaliation

Holding payments too long causes suppliers to delay shipments, spiking DIO.

→ The Goal: Frictionless Balance

Materials flow in, sales convert fast, and cash covers all obligations on time.



Optimizing DIO: Go Lean on Inventory



From "Just-In-Case" to Just-In-Time

Stop hoarding raw materials. Stock only what you need for daily manufacturing throughput.

The Cash Payoff

- Millions in trapped cash released immediately
- Warehousing and insurance costs drop permanently
- Obsolescence risk pushed back to suppliers

The Catch

Lean removes fat *and* padding. Use real-time lead-time data to set precise safety buffers — one logistics disruption can halt production if buffers are miscalculated.

Optimizing DSO: Get Paid Faster



Early Payment Incentives

Offer small discounts for clients who pay weeks early. The implied return often beats the cost of a bank credit line.



Automated Billing Platforms

Cloud tools auto-calculate and present sliding-scale payment options directly inside client portals.



The Cost-Benefit Check

Always verify: the cost of the incentive must be lower than drawing down an expensive bank revolving line.



Accelerated collections = non-dilutive funding. No new debt, no equity given away.

Optimizing DPO: Strategic Payables Design

What This Is NOT

Ignoring invoices and dodging supplier calls. That's a trap — it destroys relationships and raises your material costs.

What This IS

Proactively renegotiating payment terms based on your corporate scale. Transparent, structured, and mutually beneficial.

The Win-Win Setup

Introduce verified payment tracking platforms so suppliers see clear timelines and gain predictability — while you safely extend DPO and keep cash in-house longer.



Build a Real-Time Cash Dashboard

Live API Connections

Link your ERP directly to bank clearing systems to capture every cash movement in real time.

Key Metrics Panel

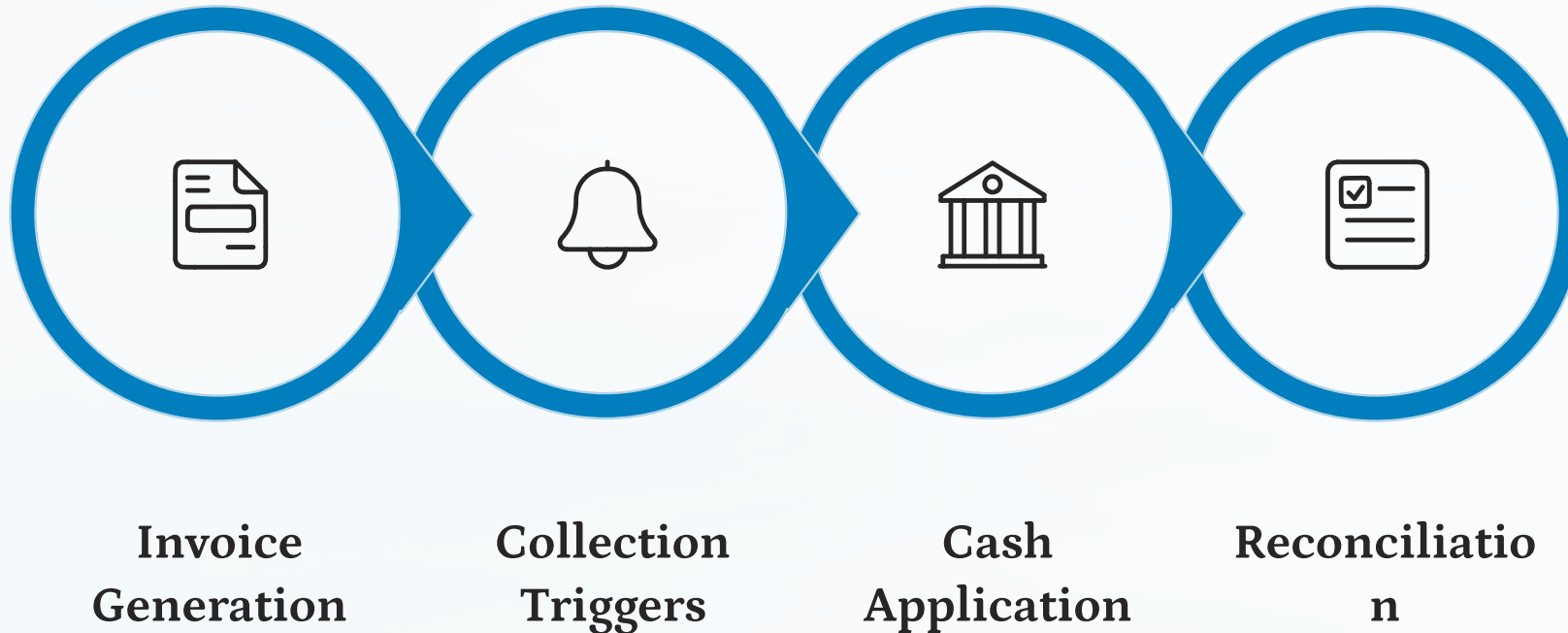
Track rolling 13-week cash forecasts, CCC components, and collection velocity — all in one view.

Automated Alerts

Set early-warning flags that fire the moment liquidity drops below critical thresholds.

A great dashboard doesn't just show history — it **predicts cash pressure weeks before it hits**, giving leadership time to act.

Automate Everything You Can



Manual billing is slow, inconsistent, and human-error-prone. Automated workflows generate invoices the moment delivery is confirmed, send tiered payment reminders, and use machine learning to match incoming payments to invoices instantly — **compressing DSO without hiring more staff.**



Case Study: Nexus Manufacturing

The Setup

Mid-market clean-energy components producer. **+40% top-line sales growth** over the past year. Sounds great, right?

The Crisis

Bank accounts are empty. Payroll is at risk. Suppliers are threatening to cut off raw material deliveries due to chronic late payments.



This is textbook **overtrading** — scaling sales without securing the working capital to support it. Rising revenue does NOT guarantee financial health.

Nexus: The Baseline Diagnostic

65

DIO (Days)

Raw material hoarding locking up capital on warehouse shelves.

55

DSO (Days)

Loose credit environment — customers paying very slowly.

30

DPO (Days)

Unsustainably low — Nexus gets almost no supplier financing.

90

CCC (Days)

$65 + 55 - 30 = \mathbf{90 \text{ days of cash locked up}}$ in operations.

Nexus is funding its customers' businesses while getting almost nothing from its own suppliers — a permanent, widening cash deficit that grows with every new order won.

The 15-Day DSO Challenge

The Big Question

Can cutting DSO by just **15 days** (from 55 → 40) save Nexus from bankruptcy and mass layoffs?

The Formula

$$\text{Cash Released} = \frac{\text{Annual Credit Sales}}{365} \times \text{DSO Reduction Days}$$

Why This Is Powerful

- **Zero percent interest rate** on unlocked cash
- Zero equity dilution — no ownership given away
- Instantly pays off delinquent suppliers
- Restores credit standing and raw material pipeline

A 15-day shift sounds small — but to a trained advisor, it's a massive structural lever hiding inside daily operations.

Dismantling Nexus's Inventory Bottlenecks

Uncoordinated Procurement

Teams bought in bulk for volume discounts — completely ignoring actual manufacturing needs.

Finished Goods Backlog

Poor coordination left completed components sitting on loading docks for weeks before shipment.

The Bulk Discount Illusion

Saving 5% on bulk purchases disappears fast when you factor in a **20% annual carrying cost** — warehouse rent, insurance, capital lockup, and obsolescence risk.



Re-Engineering Nexus's Credit & Collections

What Went Wrong

- New accounts onboarded with **no credit checks**
- **20% of late payments** caused by billing errors and data-entry mistakes
- Collections team only reached out **after** invoices were 30 days overdue

The Fix

- Automated credit scoring models for every new account
- Clean up invoicing workflows to eliminate billing errors upfront
- Proactive alerts before invoices hit their due dates
- Hard shipment holds on accounts that breach payment terms



Rebuilding Supplier Trust at Nexus

1

The Fallout

Ignoring invoices pushed DPO to 30 days but killed discounts, raised prices, and triggered COD terms.

2

The Transparent Fix

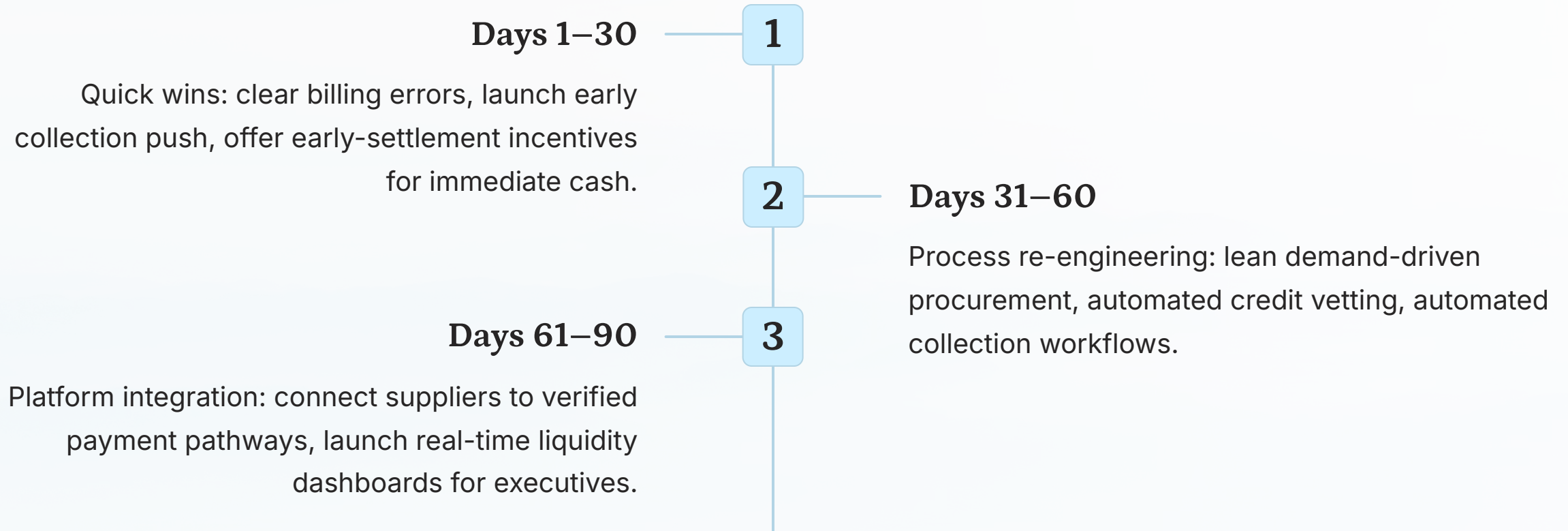
Advisor shared Nexus's growth metrics and turnaround plan openly — renegotiating structured **45-day payment terms**.

3

The Result

DPO safely extended from ad-hoc 30 → contractual 45 days. Supply relationships repaired. Liquidity boosted.

The 90-Day Turnaround Playbook



The hardest part? **Culture change**. Sales teams resist strict credit rules. Procurement teams cling to bulk buying. Weekly working capital reviews keep everyone accountable.

The Nexus Transformation: By the Numbers

DIO 65 → 42 days	DSO 55 → 38 days
DPO 30 → 45 days	CCC 90 → 35 days

- ✓ A 55-day efficiency gain unlocked **\$2.4M in non-dilutive cash** — clearing supplier debts, funding payroll, and building a liquidity buffer. No new debt. No equity diluted.

Sustaining the Engine: Governance That Sticks



Make It Permanent

- **Weekly treasury reviews** with sales, procurement, and manufacturing leads
- Tie **sales bonuses** to cash collection success — not just booking dates
- Reward **procurement** for inventory turnover, not bulk-purchase savings
- Document all optimized procedures in a mandatory corporate handbook

Companies default to old habits once a crisis passes. Hardcode cash metrics into compensation reviews to keep working capital efficiency a permanent priority.

Lean Doesn't Mean Fragile



Supplier Risk Matrix

Evaluate geographic concentration and financial stability of every key supplier.



Dual-Sourcing Channels

Pre-approve backup vendors for all critical materials — eliminate single points of failure.



Collaborative Forecasting

Share real-time ERP production data with core vendors so they can mirror your inventory needs.



Protecting Cash Through Client Credit Vetting

The Automated Credit System

- Dynamic credit limits that adjust based on real-time payment history
- Automated alerts when a client hits **90% of their credit threshold**
- Hard shipment holds the moment payment terms are breached — no exceptions, no emotions
- Chronic late-payers moved to milestone billing or auto-cleared credit card payments

The Real Goal

Strict credit vetting isn't about restricting sales growth. It's about making sure your team's energy is focused on **profitable, reliable clients** — not chasing bad debt that wipes out your paper profits.

Technology Stack for Automated Cash Control

01

ERP + Bank API Integration

Core ERP shares data instantly with customer management systems and bank portals — no manual syncing.

03

Predictive Payment Modeling

Statistical engines forecast customer payment dates based on historical behavior — catch cash gaps weeks early.

02

OCR for Supplier Bills

Optical character recognition instantly scans and logs incoming invoices, eliminating manual accounting delays.

04

Nightly Reconciliation Protocols

Strict database rules ensure inventory, invoices, and bank balances reconcile perfectly every single night.



INVESTMENTS

Your Advisory Execution Blueprint

Diagnose First

Audit DIO, DSO, and DPO immediately on any new client engagement to map their true cash reality.

Automate Fast

Eliminate manual steps. Deploy automated billing, collections, and live cash dashboards as quickly as possible.

Govern for Good

Lock in the gains with KPIs, weekly reviews, and compensation tied to cash cycle performance.

- ❑ The Nexus case proved it: a **55-day CCC compression unlocked \$2.4M** — no new debt, no equity diluted. The cash was always there. You just have to find it. Thank you and see you in Part 2!