



# Improve Profitability and Liquidity

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All companies need to focus on every aspect of their business to survive in today's economy. Middle market companies have a unique set of issues. We have identified five trouble areas contributing to financial loss among middle market businesses: procrastination; excessive wages and perks; retaining unprofitable and big box customers; slow-moving inventory; and lack of focus on projected weekly cash flow.

## **Avoid procrastination**

Management is generally aware of negative cash flow problems and the causes, but is unable or unwilling to address them, hoping the problem will somehow disappear. This approach causes continued hemorrhaging and only exacerbates the negative cash flow problem.

## **Eliminate overextended wages and perks**

Middle market companies often employ too many family members who are overpaid for their true economic value, and who are provided with unaffordable perks and benefits. Overcompensated family members can seriously threaten a company's continued existence.

## **Get rid of unprofitable "Big Box" and other major customers**

In many instances, maintaining a profitable relationship with large customers is just plain impossible. Price negotiation and paying on time can be consistent challenges. Many big box retailers simply take advantage of their economic strength to pay slowly – often as much as 90 days or more. The problem gets worse if those customers file for bankruptcy. Many middle market companies have been forced to file for bankruptcy or worse, close their own business, due to a major customer filing bankruptcy. Many of these larger customers may be privately owned, so it is often impossible to ascertain their true financial health. If a client is public, it is important to review and analyze Security and

Exchange Commission data to determine its fiscal health.

## **Purge excessive inventory**

Management often keeps very slow moving inventory on its shelves for years. This ill-conceived plan ties up cash and costly warehouse space. Every dollar invested in slow-moving inventory is one dollar less available to pay down the bank credit facility or past due trade debt. Many companies do not have the technology to track slow-moving inventory.

## **Prepare realistic cash flow analyses and projections**

The current economy has seriously impacted revenues and profitability. The record number of people unemployed in the U.S. continues to grow in part because so many U.S. manufacturing plants have closed, often permanently. Imported products from Pacific Rim countries have depleted the U.S.'s manufacturing sector and reduced blue-collar jobs.

Many companies still do not analyze their weekly cash flows, anticipated weekly receivables, and bills or bank loan payments they must make. Every company should have 13-week cash flow projections, updated weekly, and realistic monthly projected revenues and expenses for at least 18 weeks into the future.

New thinking, awareness and action must replace uncertainty, denial and avoidance for a company to remain viable during the downturn, and be positioned for a strong resurgence once economic conditions improve. ♦

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