

## Cash Flow and the Comics Retailer

In my experience, I would say that cash flow is the aspect of business management that the great majority of comics retailers pay little attention to.

I know of three cases this year where poor cash flow practices forced comics retailers out of business. I know of many more situations where poor cash flow management has crippled the ability of a comics store to prosper.

This issue of *The Comics Spectator* focuses on cash flow management.

There's nothing magical or even especially difficult about cash flow management. But a little time spent on it will pay off handsomely in the long run.

There are just four major elements that you need to focus on for effective cash flow management:

- Starting cash: Your starting balance, what you have available at the start of the time period
- Cash in: All cash received during the time period
- Cash out: All fixed and variable expenses for the time period
- Ending cash: Equals starting cash + cash in - cash out

At the end of each analysis period you should compare your forecasted cash flow against your actual cash flow, note the variances and determine why there were variances between forecast and actual values. This can help identify potential problems or opportunities for business improvements.

Cash Flow Variance Worksheet			
Category	Forecast	Actual	Reason
Starting Cash	10,000	10,000	-NA-
Cash In	30,000	28,000	Poor weather
Cash Out	26,500	30,000	Large invoice
Ending Cash	13,500	8,000	

In this example, our hypothetical retailer had lower sales than projected. The reason that was suggested for the drop in sales was an unexpected snowstorm which reduced customer traffic.

Expenses (Cash Out) were also greater than forecast due to this month being at the end of the calendar quarter and there being a much larger end-of-month shipment than normal as the major publishers jammed extra product into the pipeline in order to make their quarterly targets.

The combined impact of these factors was to reduce projected Ending Cash by \$5,500 to only \$8,000.

Basic Month-to-Month Cash Flow Worksheet		
Category	Month 1	Month 2
Starting Cash		
Cash In (Sales)		
Other Cash In		
Total In		
Cash out		
Rent		
Labor		
Merchandise		
Advertising		
Total Cash Out		
Ending Cash		

The row categories in this worksheet can be modified to suit your own needs. Debt service, for example, should be present if you have any short or long-term debt. If there are significant amounts of both kinds of debt, have a row for each category.

One of the advantages of preparing a month-to-month cash flow worksheet is that it forces you to think about how you run your store and whether changes are needed.

Cash flow problems can literally put you out of business, especially if you are in the position of living from the comics retail equivalent of paycheck-to-paycheck: relying on this week's Diamond shipment selling well.

There are ways to improve cash flow.

\* Tighten inventory. Keeping too much product on hand can tie up a great deal of cash. Make sure your inventory turns over at a regular pace.

Depending on your merchandise mix, full-bore POS may be more than what you are prepared to take on at the moment. But automating your subscriber service to reduce labor time and automating your comics count forms so you can access sales history faster when writing your monthly order will definitely save you money - much more money in a relatively short period than the work involved in setting up your systems.

If you don't know what the core products are for your key departments in your business you cannot run your business as profitably as it could be.

\* If you offer cash subscriber discounts, either stop them entirely or substitute a card punch system or other loyalty system that replaces cash discounts with discounts on product purchases.

For a store with \$250,000 in annual sales where new comics are 50% of sales and subscribers are 60% of new comics sales, a 10% subscriber discount is the equivalent of \$7,500 in lost income. Replacing your cash subscriber discount with "bonus points" or the equivalent would typically save you \$3,750!

Perhaps you feel that \$7,500 is too small an amount to bother with? Well, for many of you that would represent a 33% increase in compensation!

\* Keep track of what you have ordered. The comics industry is the only industry I know of where the majority of your product comes in two months or longer after being ordered, and on an irregular basis.

It's easy to track your payables even if you don't do your own bookkeeping. Every time you place an order, record the retail value of the order and the estimated wholesale value. (You should know what your annual average Diamond wholesale percentage is from last year's tax return).

When a shipment arrives, subtract the retail and wholesale value from your running total. I think many of you will be appalled at the size of your outstanding potential distributor bill.

In ComTrac Windows we make it possible to track outstanding order totals by Vendor by period of time. I have seen typical data from actual retailers, and the amount of product that's six months overdue can be significant. It is likely to appear someday, and it's possible that a lot of it will appear in a short period of time. Can you pay for it?

Another thing which comics retailers should do is track their weekly Diamond shipments and calculate a running average shipment amount. Keep track of the upper and lower limits of your shipments, too. If you do that, you'll be able to get a good idea of what an unexpectedly large shipment might cost you.

\* Along the same line of thinking, have a cushion to cover a cash flow crunch. Chances are, a cash crunch will come sooner or later — perhaps due to a temporary slump in the economy or your industry. If you're prepared for rough times, you can ride them out.

\* Don't expand until you have the cash to support growth. Figure out what your projected expansion will cost and make sure you have the cash to cover it.

\* Some people suggest that you stretch out payables. I think this is a poor idea, especially if you can get a discount for prompt payment. A discount of 2% net 10 or 15 compounds over the course of a year to a significant decrease in your wholesale costs.

\* Use a credit card to pay Vendors (if they accept credit cards) that gives you bonuses which you can use for other parts of your business. One of our clients puts all their game purchases on a credit card, which pays for quite a bit of business travel. (*But they also cut a check for the amount charged the day of the purchase and send it to the credit card issuer!*)

\* Comparison shop. The Internet makes it much easier to compare prices for everything from airplane tickets to office supplies to computers. Start using the Web to get the best deals. On a more humble note, check the cost of services such as trash collection, insurance, etc. every year.

Mike Wallace of *Fantasy Factory* does a presentation every year at GAMA where he discusses cost management. One of his best examples is how the cost of trash collection tends to creep up. He likes to call his trash company every six months or so and, posing as a new customer, ask what their rates are. In many cases the rate has been significantly lower than what he was currently paying.

Is this too small an amount of money for you to worry about? Consider what Joe Ferrara of *Atlantis FantasyWorld* says about comics retailing:

*"comics retailing is a game of inches, where consistent execution of many small tasks has a far greater impact than any single large change that you may make..."*