

Cash flow is defined as the balance of the amount of cash collected (revenue) and the amount of cash paid out (expenses) during a given period of time.

During times of reduced revenue, even profitable trucking companies can fail from a lack of positive cash flow. Managing cash flow becomes even more critical when credit markets tighten up and access to cash reserves (borrowing) becomes increasingly restrictive.

There are actions trucking companies can take to improve their cash flow. This outline will briefly discuss some of those actions.

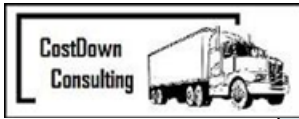
“ .. even profitable trucking companies can fail from a lack of positive cash flow.”

## **1. Reduce Costs**

Perhaps the most effective activity to improve cash flow is simply to reduce your costs. Audit your operations for unnecessary costs and employee positions that can be eliminated, consolidated or serviced by part time workers. Specific cost reduction opportunities may be found in:

1. Layoffs and Job Consolidations
2. Travel Policy & Expense Reports
3. Car Policy
4. Renegotiating pricing with Vendors
5. Performing custodial/guard services with existing employees
6. Temporary agencies instead of permanent hires
7. Outsourcing Functions: Payroll, Bookkeepers, etc..

For more detail on cost reduction measures, read [‘Trucking through a Soft Economy’](#) from CostDown Consulting’s website library.



## **2. Manage Wages**

Wages account for a huge portion of our expenses. Therefore, managing payroll expense can offer a significant improvement to cash flow. Consider the following actions:

1. Change from weekly to bi-weekly pay period.
2. Revise Advance Policy to minimize/eliminate 'convenience advances' and reduce the total pool of cash outstanding due to advances.
3. Revisit Owner-Operator charge policy and place limits on total dollar amount that can be outstanding.
4. Eliminate Overtime.
5. Postpone New Hires.
6. Pay Driver and Technician Retention Bonuses Quarterly.
7. Pay Salaried Annual Bonuses Quarterly.
8. Consider Delayed Compensation Plans for executives.

## **3. Reduce Inventory**

In trucking, excess inventory can offer a great opportunity to improve cash flow. Reducing inventory levels shrinks your accounts payable obligations and therefore frees up cash.

Identify opportunities to reduce terminal inventories through both lower inventory levels at your locations and sale/return of obsolete inventory. Where possible, put the inventory burden on your supplier. Focus on the following inventory items:

1. Fuel
2. Tires
3. Batteries
4. Maintenance Fluids
5. Parts
6. Office Supplies



#### **4. Manage Accounts Receivable**

Accounts Receivable Management offers huge opportunities to improve cash flow. Take the following actions with your receivables:

1. Assign accountability and goals for reduced Days Outstanding performance.
2. Bill promptly. Send billing out as soon as service is rendered.
3. Call late payers immediately and ask when payment can be expected.
4. Use Professional Collection agency if you lack the resources or fortitude to aggressively pursue flagrant accounts.
5. Analyze cash flow impact of offering customers discounts for early payment.
6. Have customers pay electronically where possible.
7. Deposit checks same day they are received.
8. Develop a firm collections process for owner-operators that borrow money or charge expenses and enforce compliance.

#### **5. Manage Accounts Payable**

Accounts Payable Management also offers opportunity to improve cash flow:

1. Pay bills at the last possible moment through use of electronic payments.
2. Carefully consider discounts offered for early payment. They could improve or reduce cash flow depending on terms.
3. Ask existing vendors for longer payment terms (Ex: from net 30 to net 45 days).
4. With new vendors, accept products or services only if they agree to payment terms of 45 – 60 days.



## 6. Miscellaneous

- **Sell or Lease office/terminal space**  
Turn unused space into a source of cash or revenue.
- **Sell Obsolete or Excess equipment**  
Be mindful of the future. The economy will improve and capacity will be tight. Do not sell capacity you may need in 2<sup>nd</sup> or 3<sup>rd</sup> Quarter of 2009.
- **Defer/Reexamine Discretionary Projects**  
Review all capital expenditures and determine if outlay is currently necessary. In addition to ROI, do a cash flow analysis on each pending expenditure.
- **Renegotiate terms on Brokered Freight**  
If you are doing the brokering, make sure your payment obligation does not come before you collect your revenue.  
  
If receiving brokered freight, make sure payment terms are satisfactory.
- **Check credit worthiness of Freight Brokers you do Business With**  
Avoid high risk relationships where you might not get paid.
- **Build Cash Reserves where possible**  
Position your company to not have to borrow or factor during periods where expenses exceed revenue.
- **Establish Credit Lines now**  
When you don't have cash flow problems and are still operating in the black are the best times to establish a line of credit. Banks are reluctant to lend to troubled companies so develop access to emergency sources of capital now.



## **CostDown Consulting**

**Programs and Training that Improve  
Driver and Fleet Performance**

### **CostDown Consulting can Help**

CostDown Consulting can help you reduce your costs and improve cash flow through the following services:

[Operations Audit](#) – on site audit of terminal operations to identify cost reduction opportunities in driver and fleet management, fuel management, inventory control, network operations, policy compliance and other terminal variable cost areas.

[Driver Manager Training](#) – reduces your costs by providing your Driver Managers with the training and ability to improve Driver Retention, Driver Productivity and Fleet Utilization.