

Date: 18/12/09

From: Richa

To: Manuel, the owner of *Gardener's Green*

Topic: Cash flow problem

Your company (*Gardener's Green*) is clearly facing a cash flow problem because the cash flow of a business is the cash inflows and outflows over a period of time, and we produced a graph to see your forecasted sales revenue each month and it showed that your company does have a cash inflow but it's only for certain months: April, May and September but during the months: January, February and March your cash inflow is at its least.

I think the reason for why your cash inflow is at its least during particular months (January, February and March) is because it is winter time and so your business may not be busy at this period of time. It is very important to fix this cash flow problem because if we do not fix this cash flow problem your business will not be able to make daily transactions and will be soon in a liquidity crisis.

So, to solve this problem there are many solutions which can be put into action. Firstly, the obvious method to decrease cash outflow would be to reduce expenditure to improve your cash flow. The steps you can take in order to reduce expenditure are asking for a longer credit from your suppliers, so that you have time to pay for your expenses until cash is available.

Another method of reducing expenditure could be reducing the credit given to your customers, so you can receive the cash quicker and it could improve your cash flow because some businesses are very profitable but they have poor cash flow because of too long a credit given to customers. However, if you used that method it would be possible that you would lose your customers to competitors who offer a longer credit.

If you do not want to reduce the credit given to customers and not take the risk of losing customers due to that, you could also factor debts that way immediate cash is made available and the risk of collecting the debt becomes the factor's. However, if you did choose the method of debt factoring you would have to keep in mind that you would not receive 100 per cent of the value of your debts, so it would be a good to use this method if you desperately need immediate cash for something.

You could also lease out the land during the winter months (when you don't make cash inflow) and therefore you could be able to increase cash inflow, with no extra expenses. However, you may not get many people who would want to rent a small amount of land and the people who do rent it may spoil the plants which you supply to your customers, also the people who rent out the land may use it even after the expiration of the lease (by forgetting) and if you would need the land urgently, there would be complications.

Since your supplier has increased prices by a large amount, I would advise you to change your supplier and find a cheaper one because it's not like you are very dependant on your supplier since you do grow 50 per cent of the plants that you supply to customers. However, it is hard to find new suppliers who know what exactly you are looking for.

Also since, your work is only for a couple of months you should get seasonal workers instead that way you do not pay workers for the months when you do not need them, however your employees have been with you for the past four years and must have gotten very experienced so maybe finding seasonal and experienced workers would be a difficult job.

According to me, I think the most beneficial solution to the cash flow problem would be to ask a longer credit from your suppliers as there would be no harm in doing so. Also another thing you should do is lease the land out in winter months as that is one of your main problem because you do not get much cash inflow during winter months and this solution could solve the problem of low cash inflow during winter months.