

How To Ramp Up Cash Flow and The Most Profitable Sales

by
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Old military funny money finds new life in business.

During this time of dropping sales and extended delays in credit customers' payments, an old idea is reborn.

During the Vietnam war U.S troops and sailors in Asia were paid in funny money, i.e. MPC (military payment certificate). This funny money which was also called "monopoly money" was in use up until 1973. You could convert MPCs to US dollars upon leaving a designated MPC zone, but while in these zones all you could do with it was go to the post exchange or ship's store and convert it to the local currency. MPC in Vietnam had pictures of movie stars on it and I can't remember for sure but I think Marilyn Monroe was on the \$20 bill.

Interesting, but what does this have to do with improved cash flow and more sales?

Companies sometimes offer credit customers a 2-10-N30 payment term, i.e. the customer can take a 2% discount off the invoice amount if they pay it within 10 days otherwise the full invoice amount is due in 30 days. The idea being to spur cash flow.

Any customer not taking advantage of a 2-10-N30 early pay discount fails to do so for one of two reasons:

- 1) they don't have the financial ability to do so...no money
- 2) the sales and credit guys failed to explain that a 2-10-N30 is worth a 37.24% Annual Rate of Return...where else can you get 37.24% return with no risk?

Formula:

$$\begin{aligned} & \frac{\text{Discount \%}}{100\% - \text{Discount\%}} \quad \times \quad \frac{365}{\text{Total Days Pay Due} - \text{Discount Days}} \\ & = \frac{2\%}{100 - 2\%} \quad \times \quad \frac{365}{30 - 10 \text{ Days}} \\ & = \frac{.02}{.98} \quad \times \quad \frac{365}{20} \\ & = .0204 \quad \times \quad 18.25 \\ & = \mathbf{37.24\% \text{ Annual Rate}} \end{aligned}$$

The Problem

There's a problem with early pay discounts in that sometimes customers will cut a check for payment on an invoice, less 2%, on the the 10th day but will not release the check until the 30th day or the 60th day thus defeating the very reason why the discount was offered in the first place... and further creating additional work and cost for both seller and customer in the pursuit of the unearned discount. I've never liked 2-10-N30 terms for these reasons.

The Best of MPCs and Early Pay Discounts

There is a way to use an early pay discount to improve cash flow and also bring the customer back to buy again, thus gaining the most profitable sale, the repeat sale.

Instead of offering a 2-10-N30 term a business can send out, along with an invoice, a VCDC (A Valued Customer Discount Certificate) for 2% of the invoice amount...and they can put the selling company's CEO's picture or the selling salesperson's picture on the certificate...or Marilyn Monroe's picture. Each VCDC would carry the same # as the invoice it applies to and thus would be easy to track. The VCDC would clearly state that if the invoice the VCDC applies to is paid within 10 days of the invoice date the customer can use the VCDC on their next purchase. If a customer pays in 15 days..cut them some slack and accept the VCDC...on that next most profitable purchase, the repeat.

The end result? Improved cash flow and repeat sales.

All too often we walk a mental rut, we do the same things over and over again in the same way, until the rut becomes a mental trench and then we think

we can see the horizon for oncoming danger when in effect all we really see is a wall. And that's not to say that a trench can't be comfortable and easy to navigate, but God help you if things change and the walls give way.

During this time of dropping sales and extended delays in credit customers' payments, an old idea is reborn and to those with the courage and sense to take advantage go the spoils, i.e. improved cash flow and more repeat sales.

In the last 10 years, Abe WalkingBear has spoken to hundreds of CEOs and top manager groups internationally. Since entering the training and consulting field in 1982, he has revolutionized the way that business owners, CEOs and senior managers think of and manage one of, if not, their largest assets. He is also the co-founder of www.profitinnercircle.com

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WalkingBear has written hundreds of business articles and has been a featured speaker at numerous company business meetings and association conventions. He was given the Vistage Master Speaker Award (the world's largest CEO organization) for having spoken to over 200 CEO groups in the US, Canada and Europe. A high energy and fast paced speaker, WalkingBear uses wit and humor to keep his audiences engaged and learning.

A Vietnam War veteran and of Pueblo Native American descendant, WalkingBear's family is originally from the Taos area. He is now living in Canon City, Colorado.
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