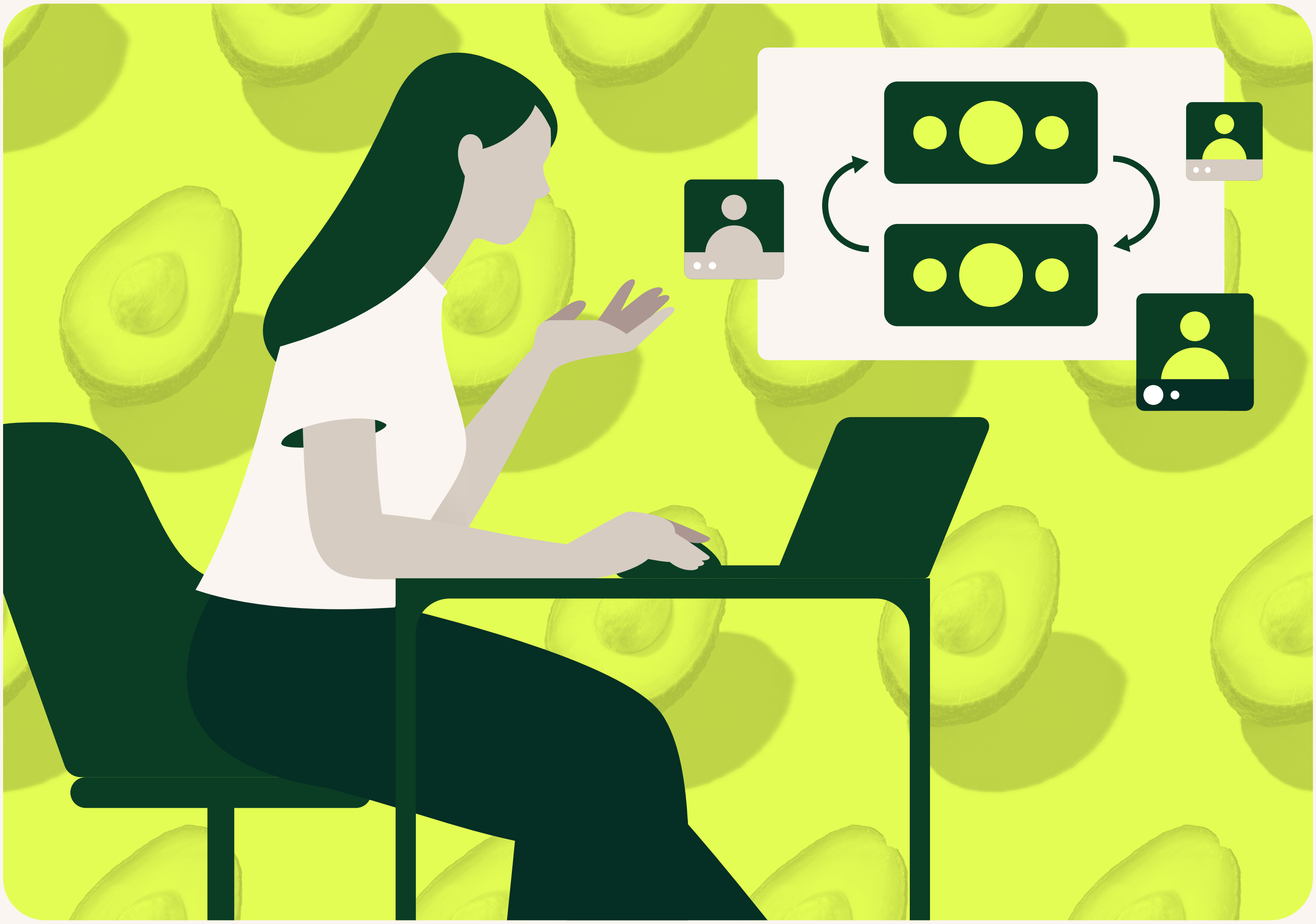
Closing Your *Cash Flow Gap*

A Guide for Produce Business Owners



Silo

Introduction

Your Cash Conversion Cycle (CCC) *The important metric many overlook*

In the produce industry where risk is constant, products are perishable, and cash is king, it's essential for businesses to manage their cash flow effectively.

As businesses continuously look to differentiate their product or service from their competition, it can be common for them to overlook foundational business practices that focus on healthy cash flow.

While different business models and unique commodities impact cash flow differently, the skill of learning how to prioritize converting investments back into working capital in the most efficient and timely manner is a skill that when prioritized results long term success.

Full control and optimization of cash flow is multidimensional, but a key concept that can help businesses dial in the management of their cash flow is the Cash Conversion Cycle. Understanding and knowing how to effectively manage the Cash Conversion Cycle (CCC) separates healthy, fast growing companies from the rest.

This guide is designed to walk businesses through how to baseline their CCC, how to improve their CCC, and how to leverage technology and capital to enhance and further optimize their CCC outcomes. Whether you are beginning this journey or you are a seasoned pro looking for new tips on how to improve your CCC, rethinking your cash flow health is an important focus for businesses serious about long term success and growth.

61%

of small and medium sized businesses struggle with cash flow

82%

of small and medium sized businesses fail due to poor cash flow management skills

3

The CCC has three key processes that teams can actively work on to improve cash flow challenges

Section 1

How to Calculate Your Cash Conversion Cycle

How to Calculate Your Cash Conversion Cycle

Also referred to as the net operating cycle, cash cycle, or cash-to-cash cycle time, the Cash Conversion Cycle (CCC) measures the efficiency of a produce company's operations by analyzing the time it takes to convert investments back into working capital.

The three components of the cash conversion cycle are:

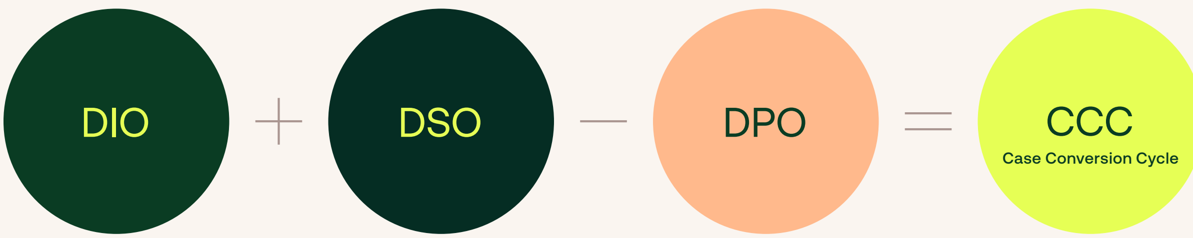
1. **Days Inventory Outstanding (DIO).** This is the average time it takes to convert inventory into finished goods and then sell them.
2. **Days Sales Outstanding (DSO).** This is the average number of days it takes for your accounts receivable to collect on invoices.
3. **Days Payable Outstanding (DPO).** This is the average length of time it takes your business to purchase from vendors and then pay (accounts payable) them.

To calculate your CCC:

1. Add the days it takes for you to sell a category or type of inventory (Days Inventory Outstanding or DIO) to the days it takes to collect payment from customers for that inventory (Days Sales Outstanding or DSO)
2. Then subtract the number of days it takes to pay off suppliers (Days Payable Outstanding or DPO)

The formula to calculate your CCC is as follows:

Cash Conversion Cycle (CCC) = DIO + DSO - DPO



For example, Freshest Fruit Produce has an average inventory turnover of 30 days, an average collection period of 60 days, and an average payment period of 45 days on their berries. To calculate Freshest Fruit Produce's CCC for their berries they would use the below formula:

CCC = 30 (DIO) + 60 (DSO) - 45 (DPO) = 45 days (Berries)

This means that, on average, it takes Freshest Fruit Produce 45 days to convert its investments in raw materials and inventory on berries into cash. It's important to note that the outcome calculation of the CCC can vary depending on factors such as seasonality, market conditions, and supply chain efficiency.

How To Calculate Your CCC Across Your Entire Produce Business

A business can identify its overall cash conversion cycle (CCC) by calculating the CCC for all of its inventory categories and types, and then apply a weighted average across these metrics.

This approach provides a more accurate reflection of the company's cash flow health, as different inventory categories and types can have different CCCs due to variations in demand, market conditions, supply chain efficiency, and production processes.

CCC = 30 (DIO) + 60 (DSO) - 45 (DPO) = 45 days (Berries)
CCC = 60 (DIO) + 30 (DSO) - 30 (DPO) = 60 days (Carrots)

Product 1: Berries
30 (DIO) + 60 (DSO) - 45 (DPO)=

Product 2: Carrots
CCC = 60 (DIO) + 30 (DSO) - 30 (DPO)=

45 Days + **60 Days**

/ **2 [product categories]**

= **Average of 53 Days**

It's important to note that your cash conversion cycle isn't static. It simply represents an estimate for how quickly your company will convert inventory into cash in the future.

A lower CCC number indicates that your produce business is less likely to be tied up for extended periods of time, and therefore has greater liquidity. When your business has greater liquidity, it has greater agility to capitalize on irregular marketplace opportunities and additional financing, when opportunities present themselves.

For this reason, understanding how to improve your CCC is one of the most important business management skill sets a manager or owner can have in a competitive market.

Section 2

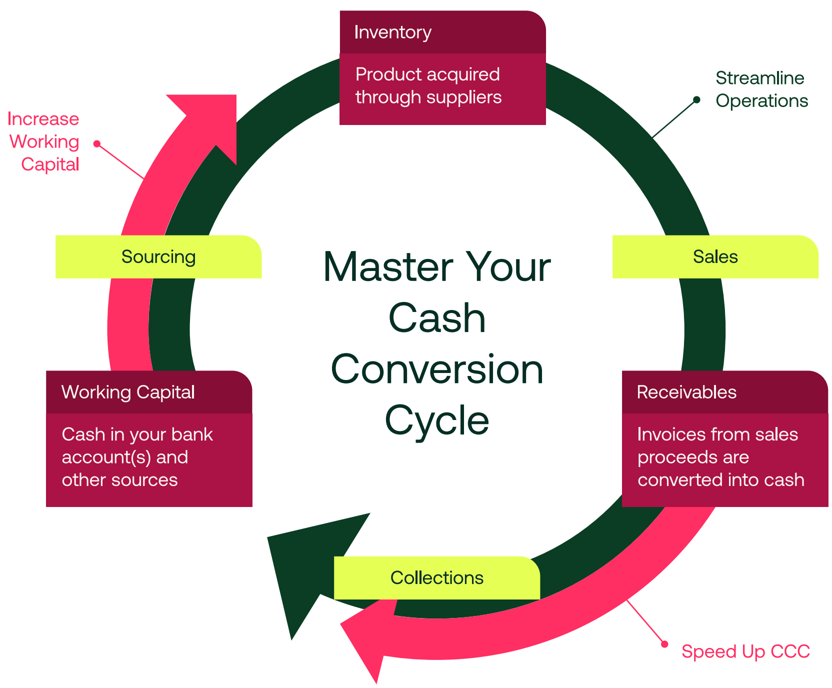
How to Improve Your Cash Conversion Cycle

How to Improve Your Cash Conversion Cycle

Once a business has baselined their CCC across one or more of their commodities, the next step is working to improve it.

In this section, you will learn how to break down your CCC into the key processes so that you can develop targeted strategies to improve them.

Technology and capital are power tools that can and should be used to help improve each key phase, positively impacting your DIO, DSO, and DPO. Focusing your energy on these three processes and leveraging technology and capital as tools to help you take action on strategies can have a significant impact on your company's overall cash flow health and profitability.



Key Processes to Focus Improvements

There are three key processes that a produce business can lean into to improve overall CCC outcomes: sourcing, selling, and collecting.

1. Sourcing	2. Selling	3. Collecting
Sourcing refers to the process of acquiring raw materials and inventory–converting cash into inventory.	Selling refers to the process of selling the produce to any client or customer downstream in the supply chain–turning inventory into receivables.	Collecting refers to the process of collecting payment from customers for the product that has been sold–turning receivables into working capital.

In the produce industry, 'sourcing' reflects everything involved in identifying and preparing your product for sales. This includes: purchasing, packing and repacking, labels, containers, transportation, logistics, border inspections, certifications, etc. Optimizing how or what your business sources deeply impacts the outcomes of the next phase of your CCC–your selling phase.

'Selling' is often seen as the most important step, because it is the phase in which you generate revenue by turning your inventory into receivables.

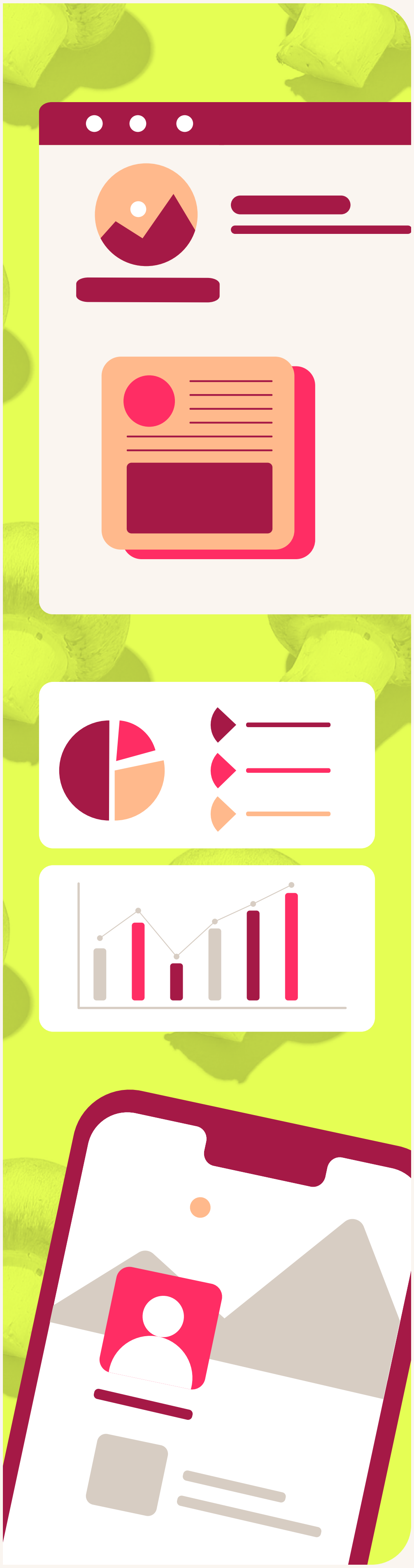
Finally, in the last phase, 'collections', optimizing your payment reconciliation process (or ways to encourage your customers, whether wholesalers, distributors, or retail channels to pay faster) will make or break your CCC outcome.

Leveraging Technology to Enhance Your CCC

Integrating technology into your operations is a great way to improve communications, coordinate efforts, and add visibility to each key process of your CCC.

Businesses that use cloud-based Enterprise Resource Planning (ERP) platforms, are able to track inventory levels in real-time, giving them the ability to adjust their ordering and production processes accordingly.

Because modern ERP systems connect inventory, accounting, payments, and other supply chain logistics, businesses are able to get more accurate insight into their cash flow health, resulting in better decision making and more efficient operational outcomes that enhance their CCC.



Here are just a few ways modern ERP platforms improve your CCC:

Enhance Inventory Management
Better synchronize supply with demand by tracking on-hand inventory levels, sales patterns, customer demand fluctuations, and PO and SO payments in real-time. When you connect all your departments and automate the collection of information, it's amazing how much your operations can improve.

Leverage Data Insights
Advanced data analytics help businesses better forecast demand, adjust pricing strategies, and identify market trends, enabling businesses to identify opportunities and reduce the risk of overstocking perishable goods. Technology has the ability to surface and highlight areas at risk on-the-fly, flagging departments to take action quickly.

Streamline Receivables
Reduce errors and improve efficiencies by automating invoicing, payment processing, and collections so that you can receive payments faster. As your business grows, it's the AR teams that can be the most impacted. Give them time back to focus on your business, not just paperwork.

Silo is a modern Enterprise Resource Planning (ERP) system that streamlines and boosts efficiencies, providing real-time visibility into inventory levels, market insights, cash flow transactions, and historical buying/selling cycles that allow businesses to respond to, and optimize the sourcing, selling, and collection processes that make up the CCC.

In Section 3, you'll see specific examples of how produce businesses are currently leveraging Silo to optimize their sourcing, sales, and collections processes.

Applying Capital and Financing

Produce businesses often experience fluctuations in working capital needs due to seasonality, market conditions, or unexpected events. Financing is a powerful resource for businesses to leverage to acquire the necessary liquidity needed to manage these fluctuations, ensure smooth operations, and a healthy CCC.

Historically, many produce businesses have leveraged Small Business Administration (SBA) loans, traditional banking loans, and/or invoice factoring companies to acquire the additional cash flow they need. It is important to note, however, that traditional lending institutions are not always well positioned to support perishable food businesses, especially small and medium sized businesses. This is because traditional lending institutions focus strictly on risk assessment documentation and information that many small and medium sized businesses struggle to provide, especially in an industry that deals with seasonal products and fluctuating markets.

However, with advances in technology, fintechs are bridging the gap between uncertainty and financial institutions, providing insight into important data points that make accessing capital more attainable to small and medium sized businesses.

Fintech platforms like Silo have the ability to understand your business better than any other lender. Through technology fintechs evaluate risks and have the opportunity to apply a perishable food lens to buyer seller relationships, financial transactions, and collection patterns that, unlike traditional lending institutions, create symmetrical incentives for both parties.

With financing as a resource, produce businesses have the ability to speed up their CCC and enhance overall outcomes by applying additional working capital to their CCC.

Shorten your Days Receivable Outstanding

Produce businesses throughout the supply chain have faced increasing pressure to extend payment terms to 45, 60, 90, or even 120 days, which would significantly increase cash conversion cycles.

As the balance in receivables grows, produce businesses must invest more cash in working capital to fund operations, prepare for emergency expenditures, and position themselves to take advantage of emerging growth opportunities.

Financing your invoices can help to lower your DSO, which means that you will get paid on your sales faster and have quicker access to working capital. This cash can then be reinvested into your business faster than if you had to wait on outstanding invoices to be paid out according to the usual payment terms.

Silo provides an enhanced invoice financing product, built to accommodate perishable food businesses. Silo automates your funding and repayments so that you can focus on your business operations.

Because relationships are everything in this industry, Instant Pay is discrete and doesn’t get between you and your buyers, offering a professional experience across all stakeholders.

Enhance growth outcomes and gradually improve your Days Payable Outstanding by adding more working capital to your CCC

When executing on your business's expansion or growth plans, it can be difficult to retain a higher Days Payable Outstanding (DPO). (Remember, the higher the number the better).

It's common that in order to work with new suppliers or secure seasonal, in-demand product, many businesses must pay upfront, negatively impacting their CCC metric. However, paying up front does have many advantages that, over time, positively impact your overall CCC.

Paying for inventory upfront can get you access to in-demand inventory, at times at discounted rates, allowing you to optimize your sales outcomes. And while a shorter DPO will have a negative short-term impact on your CCC, paying upfront can also give you the ability to establish trust with new vendors, enabling you to gradually establish more favorable supplier payment terms over time.

Silo Cash Advance was built from the ground up to provide incremental working capital to businesses in the perishable food supply chain. Cash advances based on expected future sales can be drawn in lump sum and repaid over time, with flexibility to match the near term cash flow needs of your business.

Your available balance grows right alongside the growth of your business. Expected repayments are scheduled out in advance and automated for your convenience, so you can focus more on creating value for your business.

Section 3

How Produce Businesses Are Optimizing Their CCC With Silo

How Produce Businesses Are Optimizing Their CCC With Silo

In the following section, you will find a few real-world examples of how modern produce businesses are leveraging Silo, a holistic technology and capital platform, to master their CCC and realize true cash flow health.

Silo is not only a modern ERP solution that seamlessly connects inventory management, accounting, and payments; Silo is also a fintech platform that provides capital programs built for the perishable food industry, lending itself to all areas of the CCC.

By applying technology and capital to their sourcing, sales, and collections processes these businesses have been able to better understand, improve, and master their cash conversion cycle.

Applying Silo technology and capital to sourcing

Freshest Fruit Produce leverages Silo's inventory insights and reporting to help them spot areas to optimize sourcing opportunities based on a combination of current inventory availability, market trends, an analysis of historical sales, and list of vendors that are providing the best product outcomes.

Using this information as a guide, Freshest Fruit Produce uses Silo's Cash Advance financing to pay for their inventory upfront, securing access to in-demand inventory, at times at discounted rates, allowing them to optimize their sales outcomes. And while a shorter DPO will have negative short-term impact on their CCC, paying upfront has given them the ability to establish trust with new vendors and gradually establish more favorable supplier payment terms.

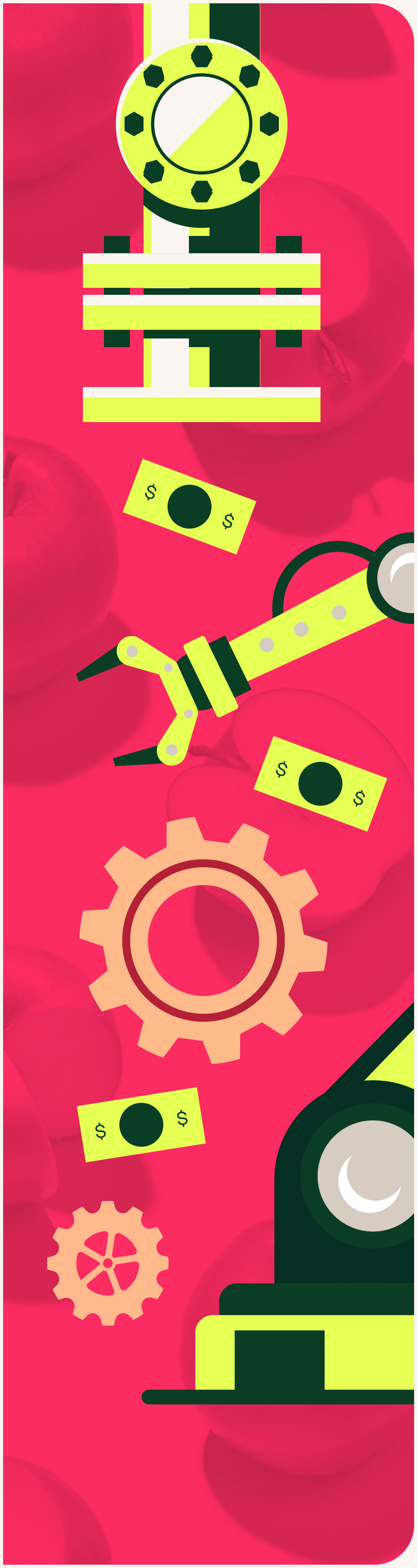
Applying Silo technology to selling

Silo technology helps optimize the movement of inventory by pulling together the documentation and expenses necessary to fully understand what profit margin outcomes will be. Freshest Fruit Produce uses a combination of inventory aging insight, "pricing intelligence", and market trends to ensure full optimization of inventory.

Silo equips their sales team with tools to help communicate margin controls (i.e., the ability to set guardrails) and initiate better selling strategies (e.g., through the leveraging of recent averages and customer types to create pricing sheets for groups). Access to real-time information, on-the-fly, improves overall sales outcomes and sets their accounting and AR team up for successful customer communications and payment reconciliations.

Applying Silo technology and capital to collections
Freshest Fruit Produce automates their invoice statements with Silo so that their customers are gracefully reminded of upcoming and outstanding payments. Each statement links directly to Silo's cost-effective digital payment solutions to streamline receivables. For customers that pay by check, Freshest Fruit Produce leverages six of Silo's remote sites to bring their business operations closer to their customer's front door, increasing the speed of reconciliations, and reducing impact on their AR team.

For select customers, Freshest Fruit Produce leverages Silo's Instant Pay capital program to accelerate converting receivables into working capital, bridging cash flow dips and empowering their businesses to sell two to three times as much in the same period of time.



In Closing

Knowledge is power, *but it's action that is required*

In conclusion, mastering your Cash Conversion Cycle is the key to unlocking healthy, predictable growth for your produce business.

By integrating cutting-edge technology and additional capital into each component of the CCC, you can unlock a newfound level of efficiency and accuracy, improve cash flow, reduce waste, mitigate risk and make data-driven decisions that will propel your business forward.

Look to partner with customer centric technology and capital partners like Silo, leveraging the valuable insights and strategies presented in this eBook to transform your produce business into a thriving, efficient operation. Don't let another day go by without taking action. Start implementing these proven techniques today and experience the profound impact a well-managed CCC can have on your business's success, sustainability, and profitability. The future of your produce business begins now—embrace the journey to financial mastery and unlock your full potential.

Visit usesilo.com/lp/cash-conversion-cycle to learn more.