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***Building Community for Entrepreneurs by Entrepreneurs***

**The Practice of “Cash Rules”  
Entrepreneurs Forum of New England -- EFNE  
Joe Cannon in the Entrepreneur’s Café  
November 3, 2005  
V1: 11/7/2005**

***2005 Founding  
Partners:***

New Commons  
SCT Group, Inc  
Urban Ventures, Inc

***2005  
Business  
Partners***

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Urban Ventures, Inc  
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Joe Cannon is one of our entrepreneurs in residence at EFNE. He is the president of CAS America. CAS America was founded in 1986. Since that time they have grown in sales, number of employees, floor space and technology based systems. They currently manufacture wood and engineered wood casework or cabinetry that is used in computer command centers, medical and laboratory facilities and high-end residential projects. All CAS products are channeled through value added distributors, dealers and contractors. The CAS America employees, from management out to the shop floor, are well trained and educated in the most recent "Lean Manufacturing" practices.

The Entrepreneur’s Café™ begins with a conversation on two of the six entrepreneurial qualities. Joe picked “dreamer” and “continuous learner.” His innovative practice is a rigorous daily system for ensuring cash reserves and cash flow. After the conversation, the participants engage in a learning café among them centered on several nuggets from the conversation and one or two questions Joe brought with him for help from the group.

**Continuous Learner**

Joe described himself as a sponge. He believes that everybody he comes into contact with has something to teach him. He was a terrible student in school, and did not receive a “formal” education from a university or college. He explained how he has always genuinely been upfront and allows others to do so as well.

Joe did not know enough about money, so he decided to learn the history of money. Money is a medium of exchange and there is an ebb and flow of cash. Much like blood, everything you take for advantage, if you run out you are in trouble.

The history of money is integral to all societies. We handle money everyday, but don’t know much about it. Joe took it upon himself to read, read and read some

more. Joe explained how he walked for two years every other day, with a finance/money guru and talked with him about money.

### **Dreamer**

Joe characterized himself as never smart enough to see that “I can’t do it.” He always tackles more. If there are no opportunities, he goes and creates opportunities. If you wish to be successful, you can be successful.

### **The Practice – “Cash Rules”**

Joe holds clear the difference between profitability and cash flow. How can you be in business, with cash flowing, and lose money? First, you must separate business spending from personal spending in the business. People keep so much cash on hand for a reason. Achieving adequate reserves is the biggest problem. The more cash you have in reserves equals survival. You can’t be so close to the edge, always scouting for value.

CAS controls pricing. Before taking a customer they are evaluated to pay and set good credit limits. CAS has a 28 – 32 day collection rate. In collections, they call 2 days before a 30 day bill is due. Inventory is monitored to keep it as low as possible. 30 to 40 thousand dollars in inventory produces 2.5 million in revenue. Bookkeeping projects 5 weeks forward of cash flow to cover hard spots and extra needs.

AT CAS they are working on the business – not in the business. You can’t make money only off your own labor. Step back and determine who or what you can leverage.

Hiring excellent people equals the basis of business. It creates a work ethic where people own their future, build a company, trust them, and create high standards. Joe’s secret weapon: his wife tells him who to hire and who to talk to – she has a sixth sense.

CAS America has gone from a productivity ratio per employee, of 185 thousand to 300 thousand dollars. “I love it.” And that ratio was achieved after a 50% hit in sales after 9/11. (A 300 thousand dollar ratio per employee ratio exceeds the industry benchmark.)

You must have a stomach for managing cash this way. And it requires risk management – always taking risks. Ran a campaign to decrease debt and increase reserves. With actual cash determine a teach juncture: spend or set aside. Look at balance sheet and operations statement – every morning. You run it like a wheel – know you can do it. The business owner needs to always know where he or she is at with cash flow and reserves.

Stand fast on the rule of 30 days, net on receivables. CAS will say no to customers if this is violated. Ok to stretch, but not to get in the position of managing their cash flow up and down. Joe described how he has a total bad debt of \$1,000 in 20 years. Say no to a sale because not every sale is good. Value add in manufacturing is important. X margin = more reserves.

At CAS Joe controls his life style, manages it with discipline and resists temptation to spend. When cash looks good is the best time to resist. Make \$2, put \$1 away and keep \$1.

CAS deploys education, people management, and technology – all at the same time. This means workers work less physically but I pay them more to think and do. Our employees are knowledge workers.

CAS shares bonuses. Average salary and bonus is about 50 thousand/person. Bonuses are in the 3 to 4 dollar per hour range per quarter. We create a good environment. Employees are well treated, with respect, and paid well. There is dignity in labor – something we have lost and must bring back and we do it at CAS.”

It is more natural to work in the business, but you have to resist. I began to leverage of others. That one bad debt woke me up.

We produce a product that does marketing for us. The downside is one customer has a great percentage of our business. We need to do outside marketing and reduce dependency on one customer.

When in a downturn, people are let go, equipment gets sold. This can be an extended period. 2001 strongest first quarter, ye the other three were down. At CAS we are fiercely loyal – cut my own salary rather than cut others.

I keep wondering with more education, how much further could I have gone? I have made the absence of education my driver. Would I have had more opportunities with education? In formal education, people have all answers and not questions. Informal education produces people who ask more questions, which drives learning. Only thing not changeable is goal ... everything on the way is changeable!

## **Café Conversation 1: Economy Outlook for 2006**

**2006** Forward vs. practical export    marketing/channels    cash flow/reserves

Crown Point Cabinet.

BOA

What is the credit check process? What are the credit limits? Collections call 2-3 days prior to NEXT 30 days. There are two challenges. First is finding and sorting out the right people with gaps. Second, what is the best compensation for advisors?

Move or not to move: take the bigger space with room for growth and sublease unused area until needed. Manage your costs and consider your end goal.

Joe: Interest rate is market sensitive; energy costs are on the up; run dual operations for a while. Markets up 7-8%. Rates are at a flat curve and domestic competition going away. Joe needs to outsource some of his business; no such a sales force. Some

solutions for Joe are to open up a second plant near his customers, become diversified, track sales of computers to large companies as leading indicator, and also increase IT spending.

There are segments of Revolutions in government and Corporations.

Take on '06: "is it time for an exit strategy?"

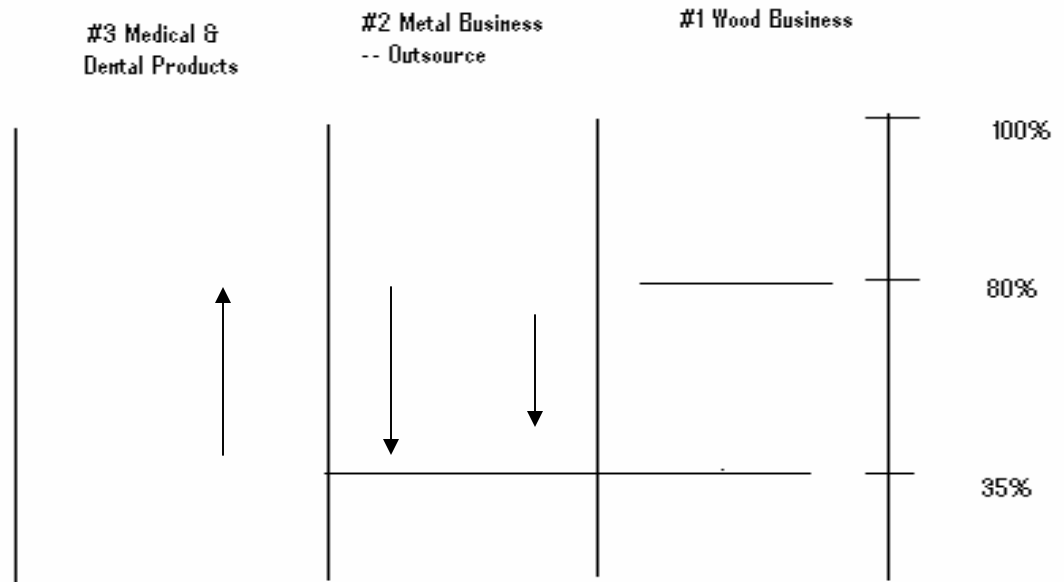
## **Café Conversation 2: Marketing (or How Does CAS Become Less Dependent on One Customer)**

How to work on the weakest link – marketing & sales:

Start with the CEO and ask questions: Why hasn't this been done yet? What are your goals? What strategy is comfortable for the CEO? Has SWOT been done on the competition? What mechanism has been used so far to build business benchmarks in industries to compare to (alternatives to traditional) i.e., Direct Sales and Crown Point?

Clarify what the target market is. Prioritize and expand to profitable areas. Look at the existing customer base and look at the profitable customers. Define the profitable customer profile (80% of CAS clients) and get rid of the rest. Segment the market industry by geographic reach. Start small, and then expand. Ask customers who they recommend for marketing and sales and strategic alliances.

Who will be responsible for public relations and marketing? Did the CEO consider e-commerce? Do they have data for marketing and sales? Practice "E-myth" (book by Michael Gerber) practice of innovation, quantification and orchestration.



\*Apply all marketing strategy to metal business

### Café Conversation 3: Dynamics of a Family Business

It is very hard to push family members because we do not want to hurt their feelings. Business carries over into the family life. Loyalty can be family centered versus self centered. We need to do business continuation planning. And communicate with family about: expectation, communication methods and entitlement.

### Cafe Conversation 4: Cash Flow/ Cash Reserves in a Start-up Business

Reserve for Employees. 6 Months of Expenses. Can you take money from friends with a real plan and with percent of the company? Risk tolerance: company level and personal.

Start with an advisory board to help smooth start-up. Don't keep your worries and plans all to your self.

Some questions:

Can you do something other than cash?

What is the "right" amount of cash reserves?

What are the business needs: people, space, and cash?

Project: worst best scenarios to determine reserves.

EOC funds: 6 months overhead expenses and 12 months expenses with no cash input.

Balance business and personal needs. How much do I need to leave in business first before I get another job...? Factoring in employees needs...Can they get a job elsewhere?

Use retainer for service business of fifty percent of expected service.

What is your personal risk factor? How comfortable are you with risk? Know (think about) your end goal (work to unveil it). Know (think about) your tolerance for risk (work to unveil it).

### **Café Conversation 5: Balancing Formal Versus Informal Learning/Education**

How do you assess risk? Dealing with experts who know better because they have more education? Choosing how you learn and respect it!! Consider: passions, timing, connections, street smarts, drive, and talent.

Reframe the word "Education." Focus on industrial creativity to cut assembly line production from the age old practices.

Determine the value of specialized knowledge. Even with education, there is a learning curve for applied knowledge.

Business Learning: Collective knowledge. Book learning versus applied learning.

Biggest Lament: 80/20 rule. Resourcefulness. Not wasting time with saturated learning. Engage in collective knowledge: specialized and/or versatility. Specialized knowledge versus degree introduces applied learning earlier in the system. Broad versus specific. Life's experiences are a more thorough education than volumes of textbooks.

As your business grows your hire educated people to fill in your weak areas. Need for the labor/experience that demonstrates the skill/value.

### **Café Conversation 6: Exit Strategy**

It takes 4 years to plan an exit strategy.

Problem Statement: 11,600 square feet max capacity. June '05 Deadline. Window of economic opportunity for 2006. Local...Regional.