



**FIGURE 18.1**  
Cash Flow Time Line and the Short-Term Operating Activities of a Typical Manufacturing Firm

Figure 18.1 depicts the short-term operating activities and cash flows for a typical manufacturing firm by way of a cash flow time line. As shown, the **cash flow time line** presents the operating cycle and the cash cycle in graphical form. In Figure 18.1, the need for short-term financial management is suggested by the gap between the cash inflows and the cash outflows. This is related to the lengths of the operating cycle and the accounts payable period.

The gap between short-term inflows and outflows can be filled either by borrowing or by holding a liquidity reserve in the form of cash or marketable securities. Alternatively, the gap can be shortened by changing the inventory, receivable, and payable periods. These are all managerial options that we discuss in the following sections and in subsequent chapters.

Internet-based bookseller and retailer Amazon.com provides an interesting example of the importance of managing the cash cycle. By early 2011, the market value of Amazon.com was higher than (in fact more than 150 times as much as) that of Barnes & Noble, king of the brick-and-mortar bookstores, even though Amazon's sales were only 5.9 times greater.

How could Amazon.com be worth so much more? There are multiple reasons, but short-term management is one factor. During 2010, Amazon turned over its inventory about 10 times per year, 3 times faster than Barnes & Noble; so its inventory period was dramatically shorter. Even more striking, Amazon charges a customer's credit card when it ships a book, and it usually gets paid by the credit card firm within a day. This means Amazon has a *negative* cash cycle! In fact, during 2010, Amazon's cash cycle was a negative 69 days. Every sale therefore generates a cash inflow that can be put to work immediately.

Amazon is not the only company with a negative cash cycle. Consider aircraft manufacturer Boeing Company. During 2010, Boeing had an inventory period of 145 days and a receivables period of 36 days, so its operating cycle was a lengthy 182 days (the extra day is due to rounding errors). Boeing's cash cycle must be fairly long, right? Wrong. Boeing had a payables period of 235 days, so its cash cycle was a negative 53 days!

**cash flow time line**

A graphical representation of the operating cycle and the cash cycle.



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**THE OPERATING CYCLE AND THE FIRM'S ORGANIZATIONAL CHART**

Before we examine the operating and cash cycles in greater detail, it is useful for us to take a look at the people involved in managing a firm's current assets and liabilities. As Table 18.1