



STRATEGIES FOR Success

OXYGENATING CASH FLOW

Exploring new strategies to increase cash flow will have your company growing in no time!

Why are some businesses cash poor even though their sales are going through the roof? The answer to this question has to do with the fact that swift growth often causes a cash crunch on your business.

A growing business can behave much like a black hole: the demands of increasing sales, support, inventory, labor, etc., can easily suck up all the money that one expects to see when a business is growing. Not only does the business have to put more resources in inventory and labor, but accounts receivable usually increase along with sales. Therefore, while your business is expanding, much of your cash is now in receivables.

So, how does a business expand without growing pains? There are two ways: internally or externally. Externally, a business can raise capital from borrowing from a bank, acquiring a partner, or issuing stock if it's a corporation. Another, less popular, way of external financing is through expanding your accounts payable. The latter strategy should be used only when the business manager knows that the business will be able to pay back this obligation in a reasonable time frame.

The only internal source of funds is through profit maximization. Most rapidly growing businesses, however, are not able to create a profit margin high enough to furnish all the capital essential for quick expansion. If profits aren't constant, the indication for business longevity is pretty clear. And even with seasonal or recurrent changes, a growing business has demands for constant resources.

The old rule of thumb in terms of financing immediate growth is to make equal the length of the loan to the practical life of the equipment. If a business uses short-term loans for long-term investments, a cash crunch is sure to follow. Short-term sources of capitalization should only be used for buying short term assets. An example is that part of inventory that is really seasonal and will, consequently, be sold during the length of the loan thereby permitting repayment.

Put another way, cash is the "oxygen" of your business. If you don't have enough, your business can suffocate before it reaches its full potential.

Here are some ways to fight cash shortages:

- Offer terms for early payment, such as "2/10 net 30" where the purchaser has an incentive to pay you faster.
- If possible, spread some of your work out by hiring sub-contractors. This way you won't have to worry about any "extra" payroll-related expenses.
- Perform an inventory count at least once a year. You may be surprised to see where some of your money is tied up!

Don't get in a cash crunch. Consult your Fiducial Business Services Representative for assistance and information on how to better manage the cash you have—and expect to have in the future.

Mark E. Gabriel

**Comprehensive
Accounting
Services
22018 Harper Ave
St Clair Shores Mi
48080
586-775-5222**