

# TIPS *from* LauberCFOs

## Revenue Growth Requires Cash... Are you Prepared?

More and more we are seeing signs that a recovery from the past 18 months of economic downturn is on its way. I'm not smart enough to predict when it will arrive, but I do know that some preparation now will pay dividends when it does.

As revenues rebound, the business will need to have cash and borrowing availability to fund the increasing revenues. In order to be prepared, let's start by taking a look at some examples.

- Payroll needs to be paid weekly or semi-monthly. The delay in billing this cost to your customer can run 30 to 90 days depending on the type of product or service you sell.
- Payment for materials purchased for a job is often required before you can invoice your customer.
- As volume increases, equipment may need to be purchased. This cash outlay will not be recovered until sometime down the road.
- When revenues are down or flat, overhead expenses are often deferred. When business begins to pick up, the spigot is opened for office supplies, promotional materials, etc. Psychologically employees often feel they should be able to start spending again.
- Key employees who deferred wage increases during the "down" times may need to be brought up to market now that things are moving again.
- Borrowing capacity is often used up to get through the "tough times". Owners often find themselves without the ability to adequately borrow to fund the return to a growth mode.

### What to do?

Understanding what is happening is a big part of being able to develop a plan to overcome it.

- Have a cash plan. An annual plus a detail 13 week

rolling cash plan is essential to navigate these positive yet surprisingly challenging times.

- Do everything you can to shorten the time between when you pay your vendors and when you collect from your customer.
- An earlier "Tips" dealt with improving cash flow. It included over 40 suggestions that might prove helpful. Check out the Tips archive on our web site.
- Discuss with your lender if a 3 – 5 year term loan tied to equity in fixed assets would be appropriate. Consider terming out a portion of your line of credit to free up borrowing capacity as revenue increases.
- If inventories and receivables are increasing, perhaps a corresponding increase in line of credit borrowing limits is warranted and would give some breathing room.
- If you had losses in the recent past make sure you have filed for any income tax refunds that might be available.
- Review business insurance to see if cash can be improved by getting an audit done quickly for an early refund or by adjusting payroll and revenue estimates.
- If personal assets are available for living expenses, owner could consider deferring salary. This is more effective than owner making additional investment in business due to saving of income and payroll taxes on the wages deferred.
- Private investment or borrowing from "friends and family" may be needed to supplement bank borrowings.

On page two, we address the difference between Net Income and Cash-flow.

# What is the Difference Between Net Income and Cash-flow?

Net Income and Cash-flow are not the same. This is why we often hear “My business is profitable, why am I always short of cash. The formula below shows the most common items that result in that difference.

## Net Income (accrual basis)

Plus:

- Increase in Credit from Vendors (Accounts Payable)
- Increase in Income Received but Deferred for Financial Reporting
- Increase in Accrued Liabilities
- Depreciation / Amortization and other Non Cash Expenses

Less:

- Increase in Credit Extended to Customers (Accounts Receivable)
- Increase in Inventories

## Equals Cash-flow from operations

- Purchases of Furniture, Equipment or Real Estate
- Increase (Decrease) in Borrowings
- Equity Contributions

## Net Cash-flow

If you could use help navigating your cash situation, a LauberCFO would be happy to set up a convenient meeting to discuss how we might assist you.

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