

TIPS *from* LauberCFOs

Why Revenue Growth Requires Cash

My business is better today than it has been for almost three years, why is cash so tight? This is a common question. It goes back to the simple theory; growth takes cash.

To help understand what is happening, let's take 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 of 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 some time 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.
- 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 article dealt with improving cash flow. It included over 40 suggestions that might prove helpful.
- Discuss with your lender if a 3 year term loan tied to equity in fixed assets would be appropriate.
- 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.
- 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.

What to do?

Understanding what is happening is a big part of overcoming it.

If you are faced with these challenges consider the help of a seasoned veteran who has been through it before. This just might be the time to give an experienced **Part-time LauberCFO** a try.

Guiding Principles

- An initial meeting with a prospective client, to determine how we might be of service, is always free.
- We will always specify our fee arrangement in advance.
- We will only accept assignments where real benefits can be provided.
- We will disclose any current or prior relationships with competitors.
- We will always put the client's interest ahead of our own.
- The experience of our people makes a difference.

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