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How to Control your Biggest Business Risk

Running Out of Money

by Ronald J. Barton

THE MOST COMMON REASON THAT BUSINESSES FAIL IS THAT THEY RUN OUT OF AVAILABLE CASH.



- If you are starting or seeking to ensure your business has the best chance of survival, you must understand your cash flow.
- Many businesses are profitable but still fail because the money that they have available is not enough to pay the bills that are due.
- Often the reason is that they are so focused on operating the business that they do not focus on the importance of when they are paid.

In most businesses YOU HAVE TO PAY OUT MONEY for payroll, rent, inventory, materials, and many other business related expenses BEFORE YOUR CUSTOMER PAYS YOU.

You have to have money available to pay these bills - THIS IS CALLED WORKING CAPITAL.

The more successful your business is the more you have to pay out in expenses before you are paid and this means you will need MORE WORKING CAPITAL.

YOU CAN GET WORKING CAPITAL FROM

- Investors who want a piece of your company
- Controlling your rate of growth until you can put some of the "PROFIT" back into the company
- Get a bank loan and/or invest your own money
- Get a line of credit from the bank

The way you can minimize the working capital you need is to bridge the cash "gap" by getting people that *owe you* money to pay earlier, and to pay the people that *you* owe money to as late as possible.

The chances of not being paid at all increase dramatically if you delay asking for payment. Your main objective is to be paid ahead of delivery if you can, or if not, get paid at the time of delivery.

Invoicing and payment incentives are critical to reducing the need for working capital.

Most Business Owners do not like asking for money, so they are hesitant at collecting cash; however, this is a RECIPE FOR DISASTER.

First things first - cash flow for your business needs to be calculated before you start- THIS WILL TELL YOU HOW MUCH MONEY YOU CAN EXPECT TO NEED IN YOUR BANK ACCOUNT AT ANY TIME IN THE NEXT 3 MONTHS (OR FOR A LONGER PERIOD IF NEEDED) AND HOW MUCH WORKING CAPITAL YOU WILL NEED TO START THE BUSINESS AND SURVIVE.

You do not need to be an accountant to do cash flow.

Just enter your reoccurring expenses, likely capital expenditures, other expenses, and the dates that you expect to pay them into a cash flow forecasting data sheet.

Then add what will be your forecasted Cash Receipts (REVENUE) and the date you expect payment.

- This will allow you to predict what balance or overdraft you will have at any time during a given period.

- You will be able to identify when you are most likely to have “cash crunches” and how much working capital you MUST have if you are going to stay in business.

Keep in mind, your cash flow chart will enable you to forecast what the cash implications of your projected revenue generation will really be -WITHOUT THIS YOU HAVE JUST JUMPED OUT OF AN AIRPLANE WITHOUT A SHUTE.

The chances are you will have to go to a bank at some time for either a Loan or a Line of Credit that will allow you to go overdrawn up to a certain amount for a limited time.

Written by: Ronald J. Barton; September 9, 2009

Ronald is a retired Consulting Partner from a major global accounting firm. He has been working with small companies over the last 4 years helping them reduce their business risk and increase their profitability. He is President of the Profit Consultant and is a Hogan qualified Executive Coach.

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