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Fast-growing companies need to guard against outgrowing their cash flow

Cash may be king for most businesses. For younger, high-growth companies, it's the Supreme Dictator – even more important than profitability, a strong balance sheet, or a good credit rating.

Without constant monitoring and control of receivables and payables, it's relatively easy for a fast-expanding business to outgrow the flow of cash that allows it to make payroll, pay bills, and meet other obligations.

Forecasting cash flow and capital requirements can be especially tricky when you're trying to develop a product or service and a customer base simultaneously. With little or no history to go on, you may find you've been too optimistic about how much customers would be willing to pay, or how soon to expect substantial order flow.

The more swiftly your business grows, the more strain it puts on your cash. Operating expenses may increase faster than you can pull in payment from customers, jeopardizing not just your company's growth but its very survival. Like cars, businesses can't run on an empty tank.

If your company is expanding quickly, it's essential to anticipate and resolve cash-flow issues before they become overwhelming. Here are the three principal ways of protecting yourself:

Make sure you're adequately capitalized. Business plans often underestimate the amount of working capital that will be needed until the company can stand on its own feet. Unless you're well-capitalized at the outset, it can be difficult to win favorable terms from suppliers, or to invest in the systems needed to manage your growth.

With venture capital investors actively seeking companies with a strong business model, it's important not

to ask for less funding than you're likely to need. VCs will be wary if your projection of capital needs seems too optimistic, since it increases the risk that you'll get in over your head. And if your business does run into difficulties due to a capital shortfall, you could go back to the well only to find that no one is willing to give you a bucket.

After your enterprise has established a track record, it's a good idea to set up a business credit line. This provides a renewable source of operating capital to cope with slow customer payments or seasonal slumps, or take advantage of early-pay discounts and other limited-time opportunities.

Keep a close eye on your cash flow. Because of their greater vulnerability, high-growth companies need a good cash management system from Day One.

A bare-bones setup may work for a time. However, it can be quickly overwhelmed by product and service expansion, coupled with exponential growth in a customer population which may be located anywhere from Bethany to Beijing. Your company then faces the time, expense, and upheaval of reengineering its financial operations to install a more sophisticated solution.

To save time and effort down the road, consider early adoption of a capable management information and control system that can grow with your business. For example, Bank One's PC-based Business Information Manager is available in several configurations depending on the level of activity, reporting on as many as 500 transactions a month in up to five separate accounts.

Among the capabilities available to you in a cash management system like this:

- Detailed daily balance and transaction data through your office PC.
- Float analysis reports giving you up-to-date information on how quickly receivables are collected.
- A daily cash position worksheet that helps you monitor cash flow.
- Balance transfer capability, with all transactions stored and logged by user ID.
- Ability to print checks, statements, and account detail as needed.
- The option of setting up a payroll direct deposit program by adding an ACH module.

In addition to more effective cash-flow control, a Business Information Manager type of system can improve your personal time management. With 24-hour online

access to your company's cash position, there's no need of frequent telephone calls to check your balance or trips to the bank or ATM to make transfers.

Look for ways to make cash stickier. Minor cash flow problems can be magnified by paying bills too quickly or giving customers too much time to pay you. Assuming that your sales are good and your margins are adequate, focus on finding ways to encourage cash to come in faster and stick around longer.

If you receive a number of payments every day from different locations, a lockbox service can help save processing time. With Bank One Economy Lockbox, for example, customers send payments to a designated P.O. box. Bank One empties the box several times a day, processes the payments, deposits them to the business's account, and provides a daily management report. Your company benefits from faster access to funds, without needing to invest in the human resources to process them in-house or having to make time to take deposits to the bank.

If your business is growing fast, take some time to discuss cash management strategies with your business banker. With an efficient, scalable cash management system supported by adequate operating capital, you'll be better positioned to avoid outgrowing your cash flow.