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Business

June 15, 2007

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Business survival requires steady cash flow

By Randy Wheeler Special to the Acorn



What's more important for your business in the short term than profits?

Cash.

Companies can survive for years without making a profit so long as they don't run out of cash. Whether profitable or not, a company will be out of business almost immediately if it runs out of

cash. Amazingly, 80 percent of businesses do not prepare a formal cash flow forecast on a routine basis. Consequently, business owners often don't realize they need more cash until it is too late to make the necessary arrangements.

Cash crises happen more often than most business owners realize. Twenty percent of all employee payroll withholdings are deposited with the IRS late, probably as a result of a cash crisis.

How do you avoid running out of cash? It starts by knowing if you are going to run out of cash. You can only know that if you are preparing a forecast.

If your forecast indicates that the business will need more cash you may have to borrow the money. For a growing business access to credit is often needed to finance the cash flow needs that usually come with growth.

If the business is going to need a loan, it will be critical that you are familiar with the "Five C's" of credit. If you are familiar with the "Five C's" and are prepared to meet these lending criteria, you will find that borrowing the funds your business needs will be easier, faster and cheaper.

According to the Small Business Administration, the "Five C's" of credit are Capacity (the ability to repay), Capital (the investment that shareholders have personally made), Collateral (a secondary source for repayment if the business ends up with insufficient cash flow to repay the loan), Conditions (the reasons the money is needed, because of good or bad things happening in the business and/or the industry) and the Character of the business owner.

Generally speaking, banks want to see cash flow capacity from the business that is 25 percent greater than the total

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business. They want to see shareholder capital equal to at least 20 percent of the value of the assets of the business.

The business or the busi

ness owner must have assets

that can be used as collateral. Often it is the business owner's home that is used as collateral.

Business conditions leading to the loan request are preferably related to business success and growth rather than a declining industry or poor financial performance. A company that manufactures iPods will be more attractive to the bank than a company that manufactures 8-track tape players (about half of the readers right now are wondering what an 8-track tape player is).

Your character and personal commitment to repaying the loan will be determined based more on your personal credit score than anything else. Your credit score usually needs to be at least 650 just to be considered. It will preferably be greater than 700.

Unless you have deep pockets, ensuring the survival of your business means managing your cash at all times. This means having a realistic cash flow forecast that looks out at least six months, and it means being prepared to meet all the criteria for the "Five C's" of credit.

Remember, you aren't just managing your business for yourself. Your employees and their families are counting on you for their livelihoods as well. Take the time to forecast the future cash needs of your business. It's a matter of life and death for your business.

Randy Wheeler, CMA, is the president/CEO of Pathfinder Metrics, a certified management accounting firm based in Moorpark. For information, visit www.PathfinderMetrics.com.

This is a classifieds page titled "Help Wanted & Business Opportunities". It contains numerous small advertisements for various services and jobs. A prominent advertisement for "Pizzeria Bread" is visible, along with others for "Arthritis Assistance" and "County Officers Wanted".

This block contains three distinct advertisements. At the top is "Commercial Rentals" with several small ads. Below that is "Child Care & Elder Care" with two small ads. The largest advertisement at the bottom is for "Moorpark and Surrounding Communities", featuring a photo of a man walking a dog and the text: "11,435 Copies Every Friday", "Everybody Wants Their Moorpark Acorn!", and the phone number "(805) 367-8232".

This is a "Service Directory" classifieds page. It is organized into columns with various service categories such as "Auto Services", "Construction", "Electrical", "Plumbing", "Real Estate", and "Retail". Each category contains multiple small advertisements for local businesses.