

Financing Your Business

Last week we looked at the value of action planning for your business. This week we will start looking more closely at financing your business.

1. Insufficient Capital For Start-Up and Ongoing Operations

Even the most dedicated workaholics cannot overcome ongoing capital deficiencies due to start-up losses or when ongoing operations consume more cash flow than anticipated. Although this is often listed as the number one reason for business failure, I believe that it is actually a symptom of underlying problems.

Here are some of the common underlying problems that show up as a financing problem:

- No ongoing measuring, managing and monitoring of the cash flow of the business. If you do not generated a cash flow budget then start now.
- A shotgun focus on every customer, instead of serving the most profitable customer segments. If you try to please everyone and try to do business with every type of customer, your cash flow will suffer.
- No clear customer retention strategy that will ensure that you keep customers, obtain all of their ongoing business and keep your cash flow alive. It is surprising how many businesses do not mine their existing customers for more business.
- The business has no systematic way of generating sales leads and converting those leads into real business. If you do not have a systematic way of doing almost everything in your business your cash flow must be suffering.
- Out of control start-up and ongoing expenses will lead to critical cash flow problems. Recovering from this will not be easy.
- Inappropriate matching of larger expenses, including capital expenditures, to long term sources of financing. A quick rule of thumb is this – if what you buy has a useful life of greater than two years, then long term financing should be arranged. Too many businesses pay these seemingly reasonable expenses as one-time costs and then find that they do not have cash for ongoing operations.
- Too much cash is tied up in inventories and accounts receivable. There must be ways to decrease your inventory levels and speed up your collection time.
- Another classic example is paying your suppliers (accounts payable) ahead of when your customers pay you. This can contribute to significant cash flow problems in times when you are building up your inventory or make large dollar value purchases.

Here are three action items that you should implement if you never seem to have enough cash flow to go around:

1. Perform an operational review/audit of all areas of your business, including the business' finances. This will help focus you on the underlying problems that are contributing to your less than satisfactory cash flow position.
2. Develop specific cash generating strategies for your business. This would include asset, liability and equity cash generating strategies.
3. Evaluate your suitability for unconventional financing alternatives. There are many new financing options available that will help you build your small business.

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