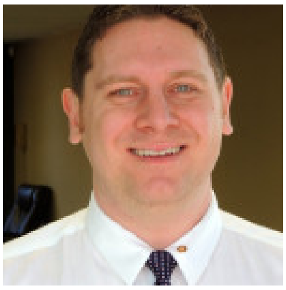
Money matters: Cash management key to financing opportunities

By Nic Abelow

For many business owners, taking their company to the next level of growth is an exhilarating but stressful task. Deciding on a growth strategy – which areas of the business to fund, what pace of growth to aim for, whether investments should be allocated to short-term or longer-term needs – is just half of the equation. The other equally critical part of the process is finding a funding source for their growth plan.

Focus on cash flow



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Among the many criteria that banks and other financiers use to assess the creditworthiness of a business, cash flow – or the business's ability to generate enough cash to service its debt, pay taxes and dividends, and make the down payment associated with any capital expenditures – often tops the list.

Other related factors that financiers typically look for include:

· Prudent levels of debt and/or adequate capitalization

· Positive trends in the company’s balance sheet and income statement

· Management’s experience and track record of success

· Its industry – how it is performing and projections for the future.

Needs-based financing options

When banks are the chief lender, the range of financing options is fairly broad, from lines of credit and term loans to real estate mortgages and Small Business Administration (SBA) loan programs. To a large extent, the needs of the business will determine the type of financing option that is most appropriate. For instance, if a company has modest or stable growth, its short-term working capital, equipment, and real estate needs typically can be met with traditional bank credit products, such as lines of credit or term loans. For short-term needs, such as financing a temporary increase in inventory, a line of credit would be indicated. For longer-term uses, such as funding the purchase of equipment or real estate, term loans generally will fit the bill.

If, on the other hand, a company is experiencing rapid growth, the solution may be to move outside of traditional bank products to asset-based lenders and/or SBA government programs.

Funding caveats

Keep in mind that many lenders tend to avoid requests for financing that appear to be speculative in nature. For instance, if a business wants to expand its warehouse space to accommodate new inventory that it thinks it can sell but doesn’t actually have customers waiting to buy, that would be considered a speculative financing request. Another might be a request for funding to increase inventory in the short-term on the hunch that the business can make a quick profit by market timing.

Other “red flags” that could bring a funding request to an abrupt halt with a prospective lender include inadequate liquidity to service all cash needs (e.g., principal payments, taxes, and rent/mortgage), excessive debt, and an inconsistent earnings history.

Keep in mind that even though these or other caveats may put a funding request in jeopardy, with proper explanation and/or documentation, it is possible for such hurdles to be overcome. If, for example, a company lost money last year due to non-recurring expenses but presents legitimate reasons for the loss, it is possible that the lender may still consider the business owner’s request.

It has been said before, but it bears repeating: Cash management is the key to starting and running — and growing — a business. To manage cash effectively, you need to anticipate future cash needs and then ensure that you have the liquidity when you need it. A financial plan with revenue and expense projections is an invaluable tool in managing this essential part of a business.

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