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## **Position Your Small Business for the Upturn**

It has often been said that "It takes money to make money." This adage certainly holds true for the small business owner.

While no one can precisely predict the beginning of the boom, it is certain to occur eventually. When it does occur, the savvy business-owner will already have his or her business positioned to grow. The key is to build "pockets of working capital" that can be drawn upon to fund heavier inventory purchases, higher payrolls and increases in other operating expenses that inevitably occur during economic expansion.

You should not wait until revenue is on the rise. Numerous steps can be taken now to build those pockets of working capital. Specifically, you should take a close look at your line of credit, vendor payment schedule, accrued expenses, receivables collection and inventory levels.

Lines of credit can prove to be a lifeline during expansion. Your business' line of credit should be tailored to your expected needs over the next 12-24 months. To accurately estimate the peaks and valleys of working capital, a cash budget should be prepared. As the name alludes, a cash budget is a spreadsheet breaking down all of your business' cash in-flows and out-flows. The budget is usually broken down by month or quarter. If your business is seasonal, a month-by-month budget is appropriate. If business is steady, a quarterly will usually suffice, although some businesses will calculate the budget on a weekly basis.

At the risk of being considered a dinosaur, I recommend that the first time you prepare a cash budget, prepare it with paper and pencil. While computerized spreadsheets are ideal for this task, and should be used once cash budgeting becomes natural, completing your first budget by hand will slow down the process and give you time to better analyze the causes and effects. Think of it as the difference between hitting a slow-pitch softball vs. a 95 MPH fastball.

It is very important to be unflinchingly honest with yourself about the timing of cash inflows and outflows. If your sales peak in June, but payments arrive in early August, enter the cash inflow in August. Likewise, if you expect to be making payments to vendors in 45 days, use that timeframe on your cash budget.

Your company's vendors also provide pockets of working capital through the sale terms they offer. As your sales increase, you will want to investigate your ability to negotiate

extended terms. For example, you may be able to make payments in 45-60 days vs. the standard of 30.

Deviation from your standard payment terms is a topic that needs to be addressed with your vendors beforehand and not taken for granted. Like all creditors, your vendors will likely fear the worst if your payments begin to appear more slowly with no explanation.

The speed of accounts receivable collection and size of your inventory will likely have the largest impacts on cash levels. But as you work through your cash budget, other ideas to improve cash outflows will formulate. Perhaps you should be paying insurance expenses each month instead of 6-12 months at a time? Should you switch to twice per month payroll instead of bi-weekly? Should you use electronic bill payment and schedule payments for the due date vs. paying when the bill arrives?

Working capital management is as much art as it is science. But, with proper preparation, good communication with your creditors and a sound game plan, you will be well prepared for the days when sales are booming again.

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