



Ask SCORE for Business Advice

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Column Title: Where's the Cash?

A business owner called the SCORE office a few weeks ago wondering what happened to his profit. His Income and Expense Statement showed that he was making money, but he wasn't seeing the cash. Where did it go?

This is a common question that business owners ask. The financial records are positive, but the business doesn't have cash to pay suppliers or meet payroll. Tony Busch, a member of the Appleton SCORE Chapter and owner of Priora Cash Flow Management, says that it all comes down to learning about and effectively managing the cash flow of a business.

The Small Business Administration defines cash flow projection as a forecast of cash funds a business anticipates receiving, on the one hand, and disbursing, on the other hand, throughout the course of a given span of time. Busch thinks that the time span should include both an annual budget forecast and a detailed monthly cash flow projection.

"Effective control of expenses starts with a budget," Busch explained. "Write down the expenses your business is expected to incur next year. Support those expenses with written assumptions close by for reference during the year. Look at the projected numbers and the supporting, written assumptions monthly."

In the monthly review, business owners should compare the actual numbers to the budgeted numbers on a year-to-date and month-to-month basis. Any variances should be addressed immediately. Busch likes the detailed assumptions, because it makes it easier to pinpoint what went wrong.

He noted, "Respond to both negative and positive variances right away. By developing this discipline in your business, you will quickly begin to recognize the inefficiencies and the things you are doing correctly in your business."

Busch acknowledges that many business owners feel they don't have the time or skill to budget and manage the cash flow, and prefer to hire accountants. He

cautions that business owners are in the best position to know their business, and need to be involved in the process.

“Unfortunately, there are no short cuts in life. If cash flow is the lifeblood of the business shouldn’t the owner make the time to understand it? It is acceptable and sometimes practical to ‘hire it out.’ But the business owner still needs to understand the cash flow of the business in order to make smarter decisions,” he said.

Busch says that the paybacks of good cash flow are worth the sacrifices. Benefits include improved business performance, making better decisions, building a stronger relationship with your lender, the ability to take advantage of growth opportunities, developing an understanding of your accounting system, retaining and attracting skilled employees, being more competitive, and perhaps the most important benefit of all, peace of mind.

If your business has cash flow issues, contact the Green Bay Chapter of SCORE. Visit www.greenbayscore.org or call Cindy Gokey at 920-496-8930 for information.

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