



Create a Roadmap to Positive Cash Flow

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Would you ever try to drive across the country without having a roadmap with you? You could just “wing-it” and find your way as you go but, generally, most would rather have a full roadmap with them for the trip. The reason is simple ... most people are visual learners and prefer to be able to SEE where they are headed. Even written directions aren't enough. They need to see the path from beginning to end, with all the other routes along the way shown in relation to where they are traveling. Only then can they travel in confidence, and peace.

Now imagine running a business. Suppose, for example, it is generating \$10 million in annual sales, and you are certain that, at that level, your business should be profitable. But cash flow is so tight that you don't know if the company can survive. Payables are mounting, suppliers are withholding shipments, and your bank line is maxed. You've personally guaranteed company debt, and now you feel as though you are drowning. You're facing a liquidity crisis and you don't know why, or how to correct it.

Is there an underlying flaw in your business model? Is your business strategy fine, but the execution is failing in some area? Are both the strategy and execution fine, but you simply need new capital to fund your growth? Is your capital structure too heavily weighted with debt vs. equity? Is your product pricing too low? Maybe your overhead structure needs to be adjusted. Or, perhaps your receivables and payables are not being managed properly.

The biggest problem may be simply that you can't SEE the roadmap, so you can't make necessary adjustments along the way. Oh, sure ... you get monthly financial statements. Shouldn't that be enough? Well, think about it. You usually get the financials a couple weeks into the following month, which makes the information already between two and six weeks old. They represent a picture of where you've been, not a picture of where you're going. If you make a wrong turn while you're driving, would you want to keep driving for six weeks before you realized the problem? Of course not.

The second problem with managing your business by looking at historical financials is that, unless you are a CPA, you are unlikely to be able to derive enough information from the financials to make informed decisions going forward. For example, the income statement will tell you how profitable you were, but it tells you nothing about how much of your profit was chewed up by principal repayments of debt, new equipment purchases, or additional working capital needs. The balance sheet, on the other hand, will tell you how much cash you had at the balance sheet date, and what your receivables and payables balances were. But, by the time you get it, the information is already stale. The statement of changes in cash flow, you ask? Well, often it's not even prepared on a monthly basis, even though it may be the most useful statement of all.

As a CEO, where does all that leave you? Without a Visual Roadmap of where you're going, you can't travel with confidence, or SEE the trouble that lies ahead. What's the answer? Create a custom tailored roadmap to your destination of positive cash flow, in the form of a weekly cash flow forecast that looks ahead six to twelve months. Properly designed in a spreadsheet format, it will become an indispensable tool to managing your business on a daily and weekly basis, while there's still time to prevent, or correct, wrong turns and financial pitfalls.

Developing a weekly cash flow forecasting model puts your whole business into a Visual form and, suddenly, you clearly SEE the whole picture of where you're headed and what to expect along the way. You'll see

upcoming trouble months in advance, while there's still time to manage through it. You'll spot spending trends immediately instead of six weeks later. You'll see the impact of debt service on your cash flow, and see whether your receivables and payables are being properly managed. Perhaps your customers are stretching their payments to you, but you continue to pay your suppliers on time. You'll immediately see the impact of that trend on a weekly basis, before it causes a crisis in your business, and be able to structure payment arrangements with your suppliers without them having all the leverage over you. As a result of being able to visualize your business, you'll be able to keep the entire organization focused and directed down the right paths, and you'll immediately know when a wrong turn has been taken.

A weekly cash flow forecast provides a variety of other important benefits, as well. Fundamental weaknesses in your business model may suddenly become clear, such as product pricing, or overhead structure. The capital structure will come clearly into focus and you'll suddenly see whether a different debt versus equity structure could save your company. You'll be able to manage your business proactively instead of reactively. If you are involved in any financing, refinancing, new capital sourcing, or other negotiations with your lenders or investors, a weekly cash flow forecast will demonstrate your command of the business in an impressive manner.

Perhaps the most convincing reason to create a weekly cash flow forecast is that you don't need any new sophisticated software to do so. Any spreadsheet software will suffice. You only need

someone in the organization to create and maintain the forecast. Preferably, a seasoned financial executive will set up the initial model but, thereafter, a junior accountant can maintain it with proper supervision. Yes, it requires some discipline to keep it current and to

commit to following the plan, but the payoff can be huge. You have a roadmap that leads you to positive cash flow. You can SEE the whole picture and, after making necessary adjustments identified by your new tool, you can travel with confidence and in peace.

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