

# How's Your Cash Flow?



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Text books are full of formulas and different philosophic positions regarding **cash flow**. But whatever those differences, cash flow continues to be the area where many business owners lose their way, and clearly need some direction.

All human beings need food to survive . The food we eat is the fuel that produces our energy. If you stop eating for a long period of time, you will starve to death. The rule is simple - consumption must be balanced with replenishing in order to maintain good health of body, mind and spirit.

Well, the same goes for your company. Cash is the food for business. Without it, the business dies. As with the human body, which breaks down the food in order to get the nutrients, your business “breaks down” the cash it consumes, in order to distribute the elements that support it. Accounts payable, accounts receivable, inventory, capital spending and growth, all are as vital to a company's survival, as the heart and brain are to your existence.

Throughout the business cycle, businesses quickly consume cash that is needed for operations. It is that consumption that must be matched with like replenishment. If you don't replenish your cash over a period of time, you are putting your business at risk of starvation.

Many business owners believe that cash-flow balance is the automatic outcome of

profitability. The assumption is: *As long as I am profitable, the cash consumed will be less than, or equal to the cash I put in.* That is, cash flow will take care of itself. The reality is, cash-flow management is a planned and directed process. Are you managing your cash-flow?

There are *many* factors that cause cash-flow starvation, and *very few* exceptions to one inevitable truth - cash flow starvation is the grim reason for nearly all failed businesses. Remember! Eighty percent [80%] of small to mid-size businesses go under within two years.

Many business owners make the mistake of confusing profitability with cash-flow. For example, if their business is not bringing in enough cash, they will take whatever action they can to increase sales. “*Surely,*” they say, “*this will remedy the situation.*” And yet, this very action can create a negative cash-flow crisis.

The problem is that increasing sales usually increases your operational cost, and then you consume more cash. Growing too fast without a forward plan can cause your business to hit a wall. Your business needs to grow in a sustained and controlled way, in order to manage cash-flow.

Controlling cash flow is a planned event. Keep in mind, if you want to go somewhere, you must first identify the “where.” The next step of course is to plan your journey, and business planning is the map you need to navigate this journey. Keep your eyes on the prize by managing your **cash flow**.

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