

# Growth Principle #6: Dig Deep into your Financial Picture

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Understanding your finances inside and out is crucial to growth.

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An important activity in driving organizational expansion is really studying your finances. Hopefully you are aware of what numbers will drive your business forward. The next step is conducting a financial reality check so you can take necessary actions to improve your fiscal situation and establish monitoring systems. Every financial activity – whether it is paying bills, collecting on invoices, borrowing, developing investor offerings or setting budgets and sales targets - should be *in your head every second of the day*.

For starters, get good information to sit down and study. Pull the latest accounting reports, cash flow projections, budgets, AP and AR reports, loan statements, bank statements and anything else that may be relevant to your financial picture. As you dig into this information you have 2 goals:

1. Get a grip on your REAL financial situation.
2. Fully understand issues that may impact your financial stability so you can deal with them.

What specifically should you look for?

**Global trends.** These days, you can't run a company without thinking globally. That means continually trying to figure out which new factors or variables will likely affect your financial model and adjusting your strategies accordingly. While you can't control problems that have cropped up and that may continue to develop at various hot spots across the global economy, you can take proactive steps *now* to shelter your business from unwanted consequences of a worldwide downturn. After all, if your company's underlying financials are strong, you should be able to capitalize on competitors' weaknesses and continue to grow, even in adverse economic times.

**Cash flow problems.** Happiness for a business owner boils down to one simple thing: positive cash flow. Good managers think about cash flow every day. But there are a lot of people who forget (especially in boom years) that the business world is cyclical and that you must have money to make money. The best thing about volatile economic conditions is that they remind managers to refocus their attention on the basics. Look ahead, understand the marketplace, put contingency plans in place for potentially painful scenarios, and remember that it could take as long as 12 to 24 months for the full ramifications of today's economic patterns to hit your business.

**AP/AR issues.** If there is one single point of vulnerability in most companies, it's accounts receivable. That's because entrepreneurial companies almost invariably make the mistake of paying much more attention to making sales than to collecting receivables. That's never a great idea, but when the economy slows down and more customers start taking longer and longer to pay their bills, the result is a cash crunch. Be *very* selective about whom you give credit to and how much credit you give them. Remember that you don't want just any customer! You want the kind who pays you and pays you promptly. Keep a good grip on your collections practices: bill promptly, follow up regularly, track results, get involved in the process when necessary, and cut off the juice to people who don't pay. As for accounts payable... never pay before you have to, plan ahead for bills and payroll expenses, avoid interest fees and late charges, communicate with your suppliers and run reports on AP *every single week* so you know where you stand.

**Strong banking relationships.** Now is the time to step back and take a dispassionate look at your credit picture and then address any problems before they come back to haunt you. Are you in a position of liquidity? Can you identify nonproducing assets that are leveraged and find ways to reduce that leverage? How much of a credit line do you truly need? In far too many cases, entrepreneurial companies wind up borrowing because of poor cash flow practices and not out of true need - and that makes bankers nervous. Another point to keep in mind when evaluating your banking relationship: does your banker feel calm about your company and its current condition? Here's why that matters. An anxious, discontented loan officer is likely to ask you to pay down your credit line at the first sign of difficulties, which are practically inevitable at some point in your organizational lifecycle. You don't want to get caught in a position where your bank has expectations that you can't meet!

**Poor practices you can fix swiftly.** When business conditions change, small and mid-size companies sometimes get sloppy with key reports. They either compile financial data late (perhaps because they don't want to face the bad news) or they ignore the data they do have. Crack down on such situations immediately. Look for other early indicators of financial stress. Are you paying your own bills so late that you're getting penalized? That's a sure sign of bad news. Is your staff getting wind of slowing sales and lean bank account balances? If so, talk openly about where you are and what you're going to do so that they can relax and get back to the business at hand. You ignore bad financial habits to your detriment.

All businesses exist to make money. To grow your company you have no choice but to become a financial guru: researching, tracking, studying, sharing and using financial data to guide decisions.