



## Why Cash Flow Management is Critical for Small Businesses

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Many Los Angeles and Southern California business owners and entrepreneurs are laser focused on boosting their companies' revenue and profits. After all, without sales and revenue, there wouldn't be a business to manage.

While making sales and earning money are obviously important aspects of running a business, these aren't the areas that most often trip businesses up. More companies run into problems caused by a lack of cash flow than due to slow sales or lagging profits.

The fact is, well-managed businesses can often survive short-term periods of slow sales or unprofitability. But it takes cash to keep operations running — to pay employees and vendors and meet all the other day-to-day overhead expenses incurred in operating a business. Without strong cash flow, even profitable businesses (at least on paper) can run out of money and fail.

### Problems Attributed to Poor Cash Flow

This makes it critical that owners and executives focus as much time and attention on cash flow as they do on sales and profits. Poor cash flow doesn't necessarily mean that a business will go bankrupt — it can also cause other less-obvious problems:

- 1. Not being able to obtain trade credit from vendors** — Most vendors are reluctant to provide trade credit to companies with poor cash flow. Some even require cash in advance from cash-poor customers.
- 2. Inability to take advantage of business opportunities** — Sometimes opportunities arise that require cash in order for the business to take advantage of them. Cash-poor businesses may have to sit by and watch their competitors scoop up these opportunities.
- 3. Loss of customers and/or prospects** — It's not uncommon for customers to take a close look at the financial strength of companies they do business with. Such customers often shy away from hiring cash-poor vendors due to concerns about their ability to continue as a going concern.
- 4. Inability to attract top talent** — The same goes for the best and brightest employees, who might choose not to go to work for a business with poor cash flow out of fear the company won't be around for the long haul.
- 5. Inability to obtain business financing** — Cash balances are one of the main things lenders look at as an indication of a potential borrower's financial stability. Most banks are very hesitant to lend to businesses that don't have a strong cash position.
- 6. Inability to raise venture capital** — Likewise, venture capitalists are hesitant to grant a large cash runway to startup ventures with inadequate cash balances.

## Hiring an Outsourced CFO

If your company is suffering from poor cash flow, one way to give your business a cash flow boost is to hire an outsourced CFO services provider. An outsourced CFO has experience working with businesses like yours to help them improve cash flow management and avoid problems like these. When you work with an outsourced CFO to strengthen your cash flow, your company could benefit in the following six ways:

- 1. It will be easier to secure trade credit from vendors.** Not only will this conserve valuable working capital, but it is also a more efficient way to operate from a business practice standpoint.
- 2. Your company will be a more attractive credit risk to banks.** Most bankers look much more favorably on borrowers with strong cash flow than those that are cash-poor.
- 3. It might be easier to raise investment capital.** Unlike a controller or accountant, an outsourced CFO has experience in raising investment capital and knows what information is important to potential investors and venture capitalists.
- 4. Your customers and employees will be assured that the company is on solid financial footing.** This assurance will go a long way toward easing any concerns customers and employees may have about your company's financial stability.
- 5. You could receive access to key investment and lending resources.** Outsourced CFOs usually bring with them a key contact list that will aid in fundraising and obtaining credit.
- 6. You could obtain protection from possible investor lawsuits.** The full disclosure to investors of where your company is spending its money will eliminate any issues with investors coming back later and claiming mismanagement on the company's part.

## Concluding Thoughts

Making sales and earning money are obviously important aspects of running a business, but these aren't the things that most often trip businesses up. More companies run into problems caused by a lack of cash flow than due to slow sales or lagging profits. This makes it critical to focus as much time and attention on cash flow management as you do on sales and profits. An outsourced CFO can help you improve cash flow management and avoid problems associated with poor cash flow.

## About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 800.276.1750 Ext 101.

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