

Renaissance EXECUTIVE FORUMS



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Bank On Your Business And Not On Your Bank

by Andrew J. Birol

In the last few weeks, three businesses I know well—all with good gross margins, well managed expenses and overhead, but growing accounts receivable and inventory costs—have had a shock to their systems. Their banks cut or closed their lines of credit. In “normal times,” or at least the past twenty years, a few phone calls to their banks’ competitors would have generated better alternatives from hungry bankers.

Credit and capital for most our business lives has been close to free and abundant. But alas! While rates are still low, cash is no longer abundant. With the current credit crunch, many perfectly acceptable credit-worthy companies are seeing their lifeblood of liquidity dry up. What can you do to stay liquid in a financial desert?

1. Don't be a bank to your own bank.

Reject any bank's requirement that you must deposit money with them on order to borrow from them. If a bank can't lend you money, don't let their mismanagement of sub-prime mortgages become your problem. Don't be there for them if they aren't there for you.

2. Don't be a bank to customers or anyone.

Many companies, especially large ones, string vendors along as a matter of policy. If large companies were forced to pay smaller vendors on time, our economy would run much better. Do your part by just saying "no" to this kind of business. Remember that you don't have a customer until their check clears your bank. Build in price-escalation clauses into your contracts for the materials and services you need to buy to meet your customer's needs.

3. Barter for what you need to buy.

It is remarkable how far a bit of creativity will take you! I had a client who provides professional services and swapped for office equipment. Once you are sure you need to buy something, shop around and ask. You will be amazed who else is in your situation and might traded with you.

4. Cut down on your credit addiction.

It is said that in good times, the average American is two paychecks away from being homeless. How dependent is your business on credit? If you don't like what you see, change it. Pay down those lines and learn to pay as you go instead of borrow what you can. Borrow only for inventory or services that you can convert and sell to someone else right away. Remember, the lower your credit line the more your business is worth.

5. Entice your customers to finance your growth.

Give your customers generous discounts for prepaying their bills. Ask them to cover your costs of buying special inventory or equipment up front. Hold them accountable for promises they make. Take aggressive actions against those who won't pay for commitments they make.

My friend and client Joe Pease, says during this environment, it is a great time to buy companies because:

- Valuations assume liquidity. If you can buy a company with cash, you will get a bargain.

- Poorly performing companies can be purchased for the price of their sales, as they cannot afford their overhead.
- Tuck-in acquisitions where smaller companies are being purchased by larger ones with more efficient infrastructures.

The old adage, "Cash is King" is as true as ever. Manage yours as if you were a banker. Actually, manage it better than that!

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