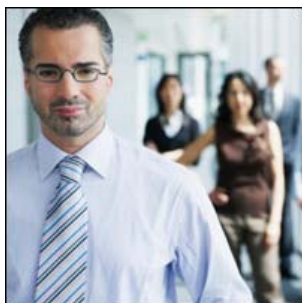




## SOLUTIONS FOR BUSINESS

### Ways to Free Up More Cash

***Even the most profitable companies sometimes run into cash-flow problems. Learn about ways that might help canny entrepreneurs pursue their liquidity needs and position themselves for unexpected opportunities.***



Small businesses share an important parallel with the human body, Lawrence Gelburd tells his entrepreneurial classes at the Wharton School at the University of Pennsylvania: the need for liquidity. "The No. 1 source of death in people is lack of blood flow from cardiovascular disease," says Gelburd, who is also an independent management consultant. "The No. 1 cause of failure of small companies is lack of cash flow because they've underestimated the amount of cash they need."

Of course, even highly successful companies can suffer a lack of liquidity, especially when they're growing quickly, or the economy is struggling, or new taxes or legislative measures are cutting into their profits. But having a strategy in place — whether it entails making efficient use of credit or bank loans, or putting aside enough vested capital in advance — can help them keep running during a downturn or an emergency. What's more, doing so can allow companies to take advantage of strategic opportunities. "For stable small

businesses with enough cash flow, this is a great time to find unique opportunities to expand," says Andy Fiol, Small Business Segment Sales and Acquisitions Executive for Bank of America. "Suppliers who are experiencing liquidity problems may offer terrific deals on volume purchases, and now may be the time to acquire a competitor, supplier or distribution partner" at a bargain price, he says.

#### How much is enough?

Every business needs cash for emergencies, but the amount of liquidity your company needs depends on your industry type, the current economic climate *and* risks that may be unique to your situation. "Business owners should calculate how much cash they would need to keep running if they encounter an internal emergency, such as all the company's computers getting hacked, or an external adverse event, such as the loss of a major supplier or customer due to economic circumstances," says Gelburd.

Talk to your CPA to help you arrive at the appropriate figure before the actual need arises. A good place to start may be examining your "burn rate," or the amount of cash you need each month to cover your operational costs. A retailer with a short sales cycle probably needs less capital in reserve than a large-equipment manufacturer that faces sizable cash outlays between sales. Seasonal companies that generate the majority of their revenues in one or two quarters also need more cash to tide them over during leaner months. "Consider planning to have enough cash flow to cover expenses for one to two quarters, based on your company's lowest-revenue periods," Fiol advises.

#### Where to stash the cash

Cash reserves that function as an emergency cushion or a strategic fund should be easily accessible. "If an unexpected downturn in your business puts your payroll in jeopardy, you want to be able to quickly convert an investment into cash," says Fiol.

Although Treasuries and FDIC insured money-market savings, traditional savings and checking accounts offer the most liquidity, their yield is currently marginal, notes Tony Morgan, Director and Head of Merrill Lynch's High-Net-Worth Taxable Fixed Income Sales and Strategy Desk. If you're seeking more yield potential, you may want to consider laddering CDs, which are also FDIC insured and carry less investment risk. By staggering the maturities of your CDs, you continually reinvest the principal in longer-duration CDs with higher yields.

Morgan says that it may also be worthwhile to consider brokered CDs, which don't have the early-liquidation penalties of CDs sold directly by banks. "You may be able to sell brokered CDs at any time without the liquidation penalty, although if you don't hold them to maturity, their value may drop if interest rates rise," he says.<sup>1</sup> Other possible investment options for a small business's cash reserves: agency discount notes issued by government-sponsored enterprises and agencies; triple-A agency bonds; and high-quality commercial paper, which are very-short-term corporate notes.

#### Look inward

If adding more debt is not feasible or possible, and your cash reserves are nonexistent or need bolstering, your options may include driving down expenses or driving up revenues — the latter being more difficult to accomplish in this economic climate. "Now is the time to take a hard look at your customers and the services or products you offer," says Fiol. Also look at aspects of your business that don't support your "core competencies." If elements of your company aren't profitable, or won't generate near- or long-term growth, "you may want to consider cutting them from the business," he says.

You may also want to consider stretching your company's short-term liquidity by altering your business practices. "Consider putting more of your expenses on a credit card," advises Robert Chalfin, lecturer at the Wharton School and a small-business consultant and author. To avoid interest payments, "it's crucial to pay off the balance each month, but you'll gain 30 to 45 days of extra cash flow by drawing out your average monthly payments." Chalfin also recommends negotiating longer payment terms with suppliers while shrinking receivables by asking customers to pay earlier. And always do your homework and consider alternatives: Get competing bids every year on your employee health plan; investigate whether a bank loan is less expensive than supplier financing; or consider leasing. Also evaluate your service contracts and get rid of those you don't need.

#### Enlist the help of outsiders

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business principles and good cash management practices and analysis are more critical than ever, which, ultimately, can potentially strengthen small businesses and give them staying power."

**Consider asking your Financial Advisor, Certified Public Accountant and tax advisor these questions:**

- What strategies should I consider for investing my company's cash reserves?
- Is now a good time for my business to take advantage of a line of credit or acquisition opportunities?
- Am I diversified enough in my personal investments and retirement savings to limit my losses if my industry takes an economic hit?

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<sup>1</sup> *Keep in mind that you may not be able to liquidate, and if you try to sell in the market, you may not get full value.*

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