



Making Good Decisions About Financial Planning

Why ‘denial’ is not a place to make money!

by Kenneth P. Walsleben

Now, don’t be alarmed, but I really need you to think about your business for a minute. Why are so many business owners in a perpetual state of denial concerning active planning for their business capitalization?

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Often, they enthusiastically report that they expect revenue to grow aggressively over the next 12 months. Yet, when prodded, they rarely consider the financial complications that develop from substantial growth.

Worse yet, when asked straight-out how they plan to fund that growth, I often get blank looks in return. And, don’t assume that self-funded firms are immune from this affliction!

Experiencing uneven cash flow?

This column is directed to all firms that routinely experience uneven cash flow. We’ve all heard horror stories of businesses that have grown into such a pickle that they had to conduct a fire sale of their promising firm to a “merger partner,” or had to raise capital quickly with troublesome terms, or even yet, delayed a payroll.

Sadly, I speak to quite a few in this situation each year.

Despite the variety of calamities, they all shared the same mistake of improper planning for sufficient financing. All too often, owners expect good growth while assuming that cash flow will take care of itself.

Results of poor financial planning

But, when invoice receipts are delayed even a little, that thin line is crossed from the ‘river of denial’ to the reality of cash-crunch.

Consider, for example, a firm with a customer, who routinely paid at 30 days, but suddenly announces a new pay policy of 45 or 60 days. Sound familiar?

Your choices are

1. to accept this new policy — through gritted teeth
2. attempt to raise rates to accommodate this change
3. consider dropping the account — not if it’s a good customer

A prudent businessperson knows to plan for negative events. The most logical method is to have ready access to additional capital beyond current expectations. That could mean a bank or factoring facility with plenty of room.

Need a backup plan

So, listen up, self-funders! This means those of you who self-fund should engage an institutional financier as a backup resource to call upon in a pinch.

To those business owners who have the financial ability to self-fund, allow me to congratulate you.

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However, if you don’t have a bank or factor waiting in the wings, you’re facing undue risk, crippling your firm’s potential growth. Typically, self-funders are privately held firms with most of the owners’ wealth in the company’s cash, property and internal funding of accounts receivable.

So, let’s pose a quick question to cause you to think: If you worked with a financial planner who encouraged you to put all of your personal wealth into one stock, would you do it?

Of course not! You’d show that planner to the door.

Putting all eggs in one place?

So, why would you keep most of your personal wealth tied up in a single business enterprise — even your own? Yet, many firms do just that.

Most owners are convinced that this is smart because they’re not paying financing fees — that is, the lack of funding expense is more like a return on investment. I humbly suggest that this is fuzzy thinking! And, it doesn’t address real risk of insufficient financial planning.

Self-funders, I encourage you to diversify.

Put money in your pocket

Instead, align with a bank or factor and use the funding to grow your business. Let the business run on its own — to flourish and grow in the ordinary course. This way, you can take your cash out of the company, and happily place it into your pocket, where it belongs, investing it into prudent, diversified investments!

After all, isn’t that the dream you initially had when starting your firm? You’ve seeded your business with capital, and you’ve absorbed all of the financial risk to get to this point. Now, you can return that cash to its rightful owner — you, and the business will continue to flourish. You may now enjoy diversified wealth — which is the best kind to have.

As you can see, regardless of the age of your firm, or your chosen funding method, you’d better not be in denial. Prudent financial planning is required throughout your journey. Don’t be complacent, don’t

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fail to plan, and remember to diversify. Your financial planner will be proud of you. And, so will I!

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