## Maintaining Positive Cash Flow and Sustaining Credit Line Availability

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The Working Capital Line of Credit is an essential tool in supporting business growth, which is what we think about when qualifying for the bank commitment. Leverage improves business returns when times are good, but represents a risk that must be managed very carefully when times are not so flush. Too often business owners are surprised when they find that credit limits have been exceeded or covenants have been breached – requiring precipitous action that is likely to compromise customer, supplier or staff relationships.

The Cash Flow Projection is the first thing that your banker will ask about if your business runs into a Line of Credit problem. Creating and utilizing a Cash Flow Projection tool will let you know exactly where you stand, to take pre-emptive steps to assure that cash flow remains positive from week to week and that there are no surprises for you with your lender.

Bankers often request 13-week (that is, weekly) projections, as one calendar quarter may be as far into the future as revenue and cost elements may be considered reliable. This is also a horizon for practical action. A Cash Flow Projection contains three basic elements: Revenue translated into collections, expenditures by major supplier or category, and a collateral calculation. Subtract cash out from cash in, weekly, and measure the effect on receivables, inventory and payables to determine well in advance whether business performance will be in compliance with your banking covenants.

If you're well on your way to creating a suitable Cash Reserve, a topic that we will address in a subsequent newsletter, keep monitoring your projection to assure wise use of resources. If the Cash Flow Projection shows that there are unfavorable weekly swings in spending that cannot be managed within the Line of Credit, or that fiscal month-ending results will be out of compliance with covenants, you have an opportunity to take preventive action. Determine whether there are sales opportunities to pursue; accelerate collections. Communicate with key suppliers to obtain special payment terms; cut expenditures. Reduce payroll; move to rolling furloughs, for example, or reduce pay temporarily. Engage with you banker to provide strongest possible assurance that you are taking steps to assure that your borrowing is secure.

For help in setting up a Cash Flow Projection and optimizing your cash flows, contact us at 303-459-4870.