

Chapter 1

The Foundation

You've done it! You have started your own business, thus joining the ranks of over 27 million who have left the security of a regular paycheck with benefits to make their own mark on the economic landscape of this nation.

Without an open mind and the right attitude, you might as well just go back to a paycheck-to-paycheck existence working for the other guy. You must be willing to change the way you think, so you can change the things you do, so you can improve the results you're getting. Remember the saying: "To do the same thing over and over again, and expect a different result, is the definition of insanity."

Why do so many people start businesses? The reasons are varied:

- Got laid off
- Wanted more independence
- Tired of punching the clock
- Wanted to build a "better mouse trap"
- Desired control over their own finances
- Wanted to fulfill their true purpose
- Tired of the rat race
- Desired to leave a legacy for family and or society

Who are all these people, and what businesses have they started? For the most part, these are very small firms. The vast majority (99.7%) of businesses in the U.S. have fewer than 100 employees. These small businesses employ half of all private sector

employees, generate 65% of all new jobs, and produce 13 times more patents per employee than do businesses that have over 100 employees. In addition, 52% of them are home-based businesses. In today's economic climate, more people are making the decision to provide for themselves and to start their own businesses.

In reality almost everyone who starts his own business does so to improve his lifestyle. More money, more freedom, more time, more control. To keep their new businesses or their existing businesses from becoming a job, I believe business owners must do several things: keep score, learn the rules and, lastly (and, I believe, most importantly), have fun. Far too many business owners treat business as a life-and-death struggle and then find out that that is exactly what it becomes for them. Jim Rohn, famous business consultant, said, "Never wish your job was easier; wish that you were better." Business becomes easier when you get better at the game of business. As you continue learning and growing, the business will get easier. Thus, my hope is that you will see this book as an important investment in your business learning and that it will result in making your business easier.

Imagine your business as a building. Have you ever passed by a building site when they're pouring the foundation? First, they dig the hole for the foundation. Next, before they pour the concrete, they stick steel rods (called *rebar*) into the ground in a grid formation. The purpose of the rebar is to add strength to the foundation. If they were to skip the rebar step and just pour the concrete alone into the hole, the foundation would not be strong enough to support the weight of the building and it could possibly collapse.

Just like the rebar in that concrete foundation is the real strength holding up the building, the solid framework holding up your business is a **cash flow management system**. A cash flow management system both strengthens and fortifies the foundation of your business, allowing it to withstand all kinds of obstacles and challenges and to take advantage of opportunities as well. With a strong cash flow management grid in your foundation, you can build your business as tall as you can dream. Without it, you will likely never get off the ground.

The Rationale of Starting a Business

If you were to poll those 27 million business owners and ask them why they started their businesses, you would get a multitude of reasons – probably close to 27 million different ones. But I guarantee that not one of those entrepreneurs would say that he or she started his or her business for the purpose of losing money! Almost all business owners and entrepreneurs start their own businesses to gain wealth and to improve their position in life. Some even want to help others do like-wise.

Here, then, is the central principle (I learned early in my career to pay attention to principles: though they may not be law, they are how reality operates. In effect, a principle says, “This is how this is to operate.” If one chooses to ignore the principle, then one will suffer consequences.) to this book and also to the success of your business – something that you will hear very few financial advisers say. If you get nothing else from this book, I hope that you latch onto this principle and not let it go:

*The single foundation for creating and multiplying wealth is -
understanding and interpreting cash flow.*

In working with business owners for many years, it is my experience that a majority of them are **slaves** to their cash flow rather than **masters** of it.

One very successful entrepreneur once told me, **“I realize there are only two things that have to be managed EVERY day by every successful business person and the first is CASH FLOW and it is the bane (killer, slayer, a thing that ruins or spoils) of EVERY entrepreneur, even those who do million dollars in sales monthly.”**

My experience partnering with business owners is much like that which I quoted above. Most entrepreneurs and business owners know cash flow is important but most do little to master it, letting it master them.

I wrote this book because I want to see you – *business owner and entrepreneur* – become **master over your cash flow.**

Cash flow is a simple concept from the accounting world that gets very little attention from many business owners, but it is absolutely critical for business success! A cash

flow management system is an essential tool for determining two things: the *financial flexibility* of a business and the *liquidity* of a business.

- *Financial flexibility* is the ability of a business to take advantage of unexpected opportunities or to respond to unexpected events by changing the amount or timing of cash flows.
- *Liquidity* is the condition of having enough money on hand to meet financial obligations without having to sell fixed assets such as machinery or equipment.

It is my goal for you to become both more cash flow literate and cash flow conscious, enabling you to improve your cash flow and, thus, to breathe new life into your business. Understanding and applying basic cash flow principles and implementing a cash flow management system will strengthen the foundation of your business and help maintain your balance while on the edge.

Okay, maybe you're saying ...

I Don't Need to Worry About Cash Flow; I've Got a Million-Dollar Idea!

Good for you! I hope that you do make millions from your idea. Unfortunately, however, the business graveyard is heavily populated with million-dollar ideas that didn't make their owners a cent. A million-dollar idea isn't worth a dime unless and until it starts to generate positive cash flow.

Here's the common scenario: The desire to be your own boss often stems from your passion – passion to create a product, offer a more efficient or more economical process, or even to provide a unique or better service that the world may not even have realized that it was missing or needed. Armed with that passion, you, the hopeful entrepreneur, dive into the world of owning and operating a business. Suddenly, you are confronted with the cold reality that an entrepreneur needs to wear a variety of hats in order to be successful. It's not enough to have a great idea or a unique skill. The need to “know it all and be it all” for your business creates pressure and stress on you, the business owner. You lose the ability to focus on your vision or purpose and your original area of giftedness as you, your vision and your gift become buried in the varied details and responsibilities of running a business.

Some of the most important responsibilities of running a business are in the area of accounting and finance. In fact, without accounting and finance (keeping score), there is no business! Most business owners, however, have not been trained professionally in these areas. Many have virtually NO training in these essential business disciplines. Yet, when faced with fluctuating economic cycles, rapid technological change and the general uncertain nature of business, the ability for a business owner to make sound financial decisions quickly is paramount, and those decisions cannot be outsourced. Financial management is too important to leave solely in the hands of accountants and bankers. **The success or failure of your business rests solely on your shoulders.** Thus, having a constant and precise knowledge of the financial workings of your business and what both inside and outside forces can potentially affect the success or failure of the business is critical.

Now for the tough news: *Business failure is the rule*, rather than the exception! Why is it considered such a milestone for a business to pass the ten-year mark? Because, sadly, most – 80% of – new businesses fail within the first ten years. Post-mortem records for those failures show that over 90% of business failures were due to poor financial management. The primary factor of their failure? Insufficient cash flow management. In fact, cash flow problems account for 85% of all business failures in the first through fifth year of their existence! 85%!

Many of them had million-dollar ideas, perhaps similar to yours. The issue, as mentioned before, is that *a great idea, by itself, does not make a healthy business.* Even if you add a passionate business owner, a talented staff, a dynamic marketing campaign, a cost-efficient production system and a hungry market, *a business is still guaranteed to fail if it does not generate positive cash flow.* That bears repeating: a business is guaranteed to fail if it does not generate positive cash flow.

Almost every one of these business failures could have been prevented by simply paying attention to cash flow! Too many business owners get distracted by other things that appear to be the first order of business – advertising, staffing, cost management, inventory and the like. These factors are all very important and must be addressed to ensure your business' growth and success. *But without sufficient cash flow, none of these issues would exist!* Your arms, feet, eyes and ears are all vital parts of your body, but without blood flowing through them on a constant and

consistent basis, they are useless. Likewise, without cash flow, every other dynamic of your business – staffing, inventory, etc. – will dry up and cease to be.

This may sound overly simplistic, but the vast majority of business owners (small and large) never learn this simple principle, even though it is vital to the success of the business:

Regardless of the business you are in, whether it's a product or service,
you are actually in the cash flow business.

Whatever you do, sell, or provide for your customer is secondary to having the cash flow to continue your business day in and day out. If you are not focused on creating cash flow, then you're wasting your time in business. Cash is the lifeblood of every business. It is the fuel that keeps all business engines running. Despite this truth, many business owners never get a handle on their cash flow and are, thus, driving their businesses on an empty tank. Not implementing a cash flow management system in the business is like driving your car without a gas and oil gauge that works!

Pain, whether it is in our bodies, relationships, businesses, or anywhere else in life, is an indication of something wrong. Usually it is a sign of some sort of blockage or restriction of the life source – oxygen or water in our bodies; love in our relationships. In the case of business, the constantly flowing life source is cash. If we are experiencing pain in our business, that life source – cash flow – must have a blockage somewhere. To eliminate the pain – not just relieve it – the root cause of the blockage must be discovered and eliminated.

My desire with this short, simple, practical, relevant, straight-to-the-point book is not to just give you an aspirin to cover up your pain; it is to help you identify the source of that pain and to perform the surgery necessary to remove it. I want to encourage, educate, and equip you, the business owner and entrepreneur, in your business journey. I want your business to achieve its full potential. I want your business to experience the free, unhindered flow of its life source – **CASH!**

My dream in writing this book is to help you prepare and use cash flow projections in your business and to convert that worthless paper into green paper called **cash!**

***What numbers are most important to help you manage
your business?***

Read on and let's discover as I want to give you a hand up!



May Your Cash Flow!

Chapter 2

Cash Flow Problems Don't Just Happen

Rarely is a cash flow problem a sudden event. Like most problems in life, it is something that builds up a little at a time until the dam breaks. Always (and I do mean *always*) there are enough signs and clues to head off first the leaks, then the dam breaking.

Most of the time the people involved, including senior management, fail to take the corrective action necessary to alleviate the situation - to "fix the leaks." Usually the bulk of the problems stem from poor, inadequate communication, from fear of making mistakes or from believing that it is someone else's responsibility.

The information in this short chapter is critical to increasing your awareness of things that happen all the time in businesses.

Here are things that affect cash flow in companies that can easily be averted:

- The owner and/or top management don't know the answers to the following two questions:
 - 1) What is your cash balance right now?
 - 2) What do you expect the cash balance to be six months from now?
- Vendors are not being paid on a timely basis
- Sloppy accounting practices leading to poor, inaccurate reporting
- Financial books are not current
- The owner and/or top management neither have nor track 3 to 4 key performance indicators for their specific business
- The owner and/or top management don't understand the basic drivers of cash flow for their business
- The owner and/or top management don't know what happened to cash flow last month, nor do they have a simple, quick way to find out
- Doing things that continue to lose money, expecting outside forces to change (known as a miracle) rather than making changes internally

- Paying good money for a CPA, CFO and/or outside accounting service firm but not receiving any real, useful, practical benefits (value) for the dollars spent
- The owner and/or top managers ignore advice from their financial managers
- The owner thinks that he is related to the bird species that attempts to fly by the seat of their pants
- Not paying attention to how cash flow is affected by every decision, large or small
- Not willing to confront the reality of the situation
- Not paying attention to the cost of goods NOT sold (inventory sitting on the shelf)
- Not knowing exactly what the product(s) and/or services really cost
- Not hiring qualified help in business areas where the owner and/or top management are weak
- Driving the business looking through the windshield of the business (balance sheet and income statement) rather than at a reliable financial forecast