# Tough Times Crown Cash Flow As King

**Aaron Puttroff**
aaron_puttroff@thewp2.com

**Living Legacy**
4275 Executive Square
Suite 800
La Jolla, CA 92037
(619) 684-6410

Today, we discuss an area where business owners who want to both survive in today's economic climate and emerge from it poised for growth (or sale) can focus their energies: quantifying cash flow.

As you consider ways to meet today's economic challenges, a vital first step is to focus on company cash flow.

What do we mean by cash flow? The amount of cash left over after the company has paid its expenses. Common add backs to cash flow include:

- Excess Compensation
- Shareholder Distributions
- Owner Perks
- Retained Earnings Additions
- Depreciation and Amortization deductions

We recommend that you take a hard look at your company's monthly cash flow statement. Do you really understand what it is telling you? Today every owner must become an expert in reading cash flow statements. If you are not as comfortable with your company's financial statements as you are with your favorite novel, ask for help. Your CPA can quickly teach you to "read" or analyze your financial information so that you can quickly determine, on a monthly basis, your company's cash flow.

## Why is cash flow "king?"

Cash flow has always been hugely important in both running a successful company and in orchestrating its successful sale, but today cash flow is king. Why?

1. Cash flow is the lifeblood of a company. Owners must understand —and be able to measure —where cash comes from and where it goes. It is an accurate indicator of the financial health of your business. Unlike more subjective measures, it makes no assumptions and entertains no preconceptions.
2. For the reason stated above, cash flow is a critical component of what your bank wants to see. Unless you are able to accurately establish current cash flow, banks will be reluctant to grant or renew financing.
3. Quantifying exactly how the current economy has affected your company's cash flow (as opposed to

just revenue) provides a credible way for you to predict the impact of further expense reductions, strategies to improve revenues or strategies to improve gross margins. If you don't know —at this moment —your company's cash flow position, you cannot effectively manage your company and you can't predict or project future cash flow.

4. The financial reason you are in business is to grow shareholder value. Shareholder value grows as cash flow increases.
5. In troubling times, employee fraud (such as embezzlement of company funds) tends to increase. The best way to detect fraud is to review cash flow/financial statements on no less than a monthly basis. We are assuming, of course, that your company is producing monthly financial statements. Anything less frequent than that and you run the risk of not reacting to something that "isn't quite right" as quickly as you should, and not knowing where your business is or where it's heading.

Once you've got a handle on current cash flow you need to create, based on today's economic climate, a projection of future cash flow. Begin with an accurate picture of current cash flow. Then, create three projections: one for the best-case scenario, one for the worst and one for the likeliest scenario. All of those projections should include assumptions about:

- Customer Expectations/Policies
- Supplier Options
- Actions of your Competitors
- Profitability
- Pricing
- Product Lines
- Equipment Replacement

Keep in mind that your employees may not be able to create these projections. They may have their hands full managing the day-to-day issues. If that's the case, seek the help of your CPA, or consider hiring someone on a temporary or project basis. These projections are simply too important to put off until next week, next month or next quarter.