

Starting a Business – Be the Cash!

Starting a new business requires a firm hand on the checkbook. Cash is the lifeblood of your business and must be managed as such. In the 1980 movie *Caddyshack*, Ty (Chevy Chase) tells Danny (Michael O'Keefe) to 'be the ball' while putting out for the win on the 18th hole. During your start-up period, you have to be the cash! Without cash, you're out of business. You have to guard your cash with a firm hand and conscious intent.

Evaluate Every Use of Cash

You need to clearly understand how your purchases will affect your cash position and what the expected return on your invested cash dollar will be.

Purchases of non-essential production assets should be carefully considered. As a small business, your cash position is likely very limited and therefore must be guarded carefully. If you need desks for your office, see if you can buy them used or make do with old tables. A folding chair will work just as well as a leather swivel chair in the beginning. Think about every dollar you spend and how it will return a profit to your business. If the purchase will not return a profit, then carefully consider whether you really need that asset.

Measure Cash Performance

In order to judge whether cash investments are returning a profit for your business, you need to create a measurement system to evaluate the results. Don't be afraid to make changes to investments that aren't returning an adequate payback.

Some investments are easier to measure than others. Advertising for an on-line business function is fairly easy to measure. How many dollars in revenue are you generating from your on-line business? Others may not be as easy to measure. Don't let that stop you from figuring out a way to measure though. There's an old saying in the quality business that you can't improve what you don't measure. Let that be your mantra.

Get your employees involved in the measuring process. If you're considering a new salesman, have him or her participate in the creation of the measurement system. Not only will they help you identify an appropriate way to measure performance, you'll get their buy-in on the process. If they don't measure up to your joint expectations, they'll know it long before you have to bring it up.

Here are a few simple strategies to keep in mind about guarding your cash:

- Don't invest cash in non-performing assets unless there is a compelling business reason to do so.
- Don't invest cash without a payback expectation.
- Create a measurement system to measure investment payback.
- Don't run out of cash!

Can I Grow My Way Out Of Cash Flow Problems?

In a word, NO! If what you are currently doing is causing you cash flow problems, then doing more of it will only cause you bigger cash flow problems. That's like the salesman who told me that his product had a very slight negative margin, so all he had to do was sell more of it. Multiplying, hiding or covering up your cash flow problems will not make them go away. It may make your company go away, but the problems will still be there.

We'll discuss this topic in detail in Part 6.