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## Cash is King



### What You Can Do to Preserve Cash

When economic times turn tough, cash is always king. Many private business owners have the urge to pay off their bank, their supplier and pre-pay any expenses they may have. While doing so, they often will use all of their cash reserves. Although it feels good to have no current debt, it often can lead to problems down the road.

During an economically challenging time many businesses will run into "bumps in the road." These bumps will eat cash. If you've paid all your current debt, but have no cash sometimes you might find it very difficult to find the money you need. This means that if you've paid off your line of credit to the bank and you want to take some money back, the bank might not let you have the money back that you've repaid. When economic times get tough, banks seem to pull in their horns and make it very difficult for you to borrow money.

We believe that a successful wealth management relationship starts with clarity of purpose.

Before embarking on any plans or strategies with our Client, we first seek to develop a clear understanding of your personal and financial goals.

We then work with you to select and implement strategies that will help you move toward your goals.

### What should I do if I'm already having cash flow problems?

The first step is something that you probably should have done well before your cash flow problems appeared. That is some planning around your business and the amount of cash your business will have. We strongly suggest you spend time doing a budget that is not a best case budget, but a worst case budget. What are the worst things that could happen to your business that would impact your cash flow?

After you have put together this budget you will want to consider making changes in how you run your business that will show a positive cash flow. No one is going to lend you money unless you can show them a high probability of repaying the loan. Your suppliers will eventually stop selling you merchandise if they are convinced you don't have a good way of paying current bills you have with them.

Once you put together a budget that shows a worst case business scenario with a positive cash flow then it's time to start negotiating with your suppliers. Many times suppliers would rather change your purchasing deal instead of having you become an ex Customer. If you have a reasonable chance of surviving this downturn, your suppliers can become your bank as well.

### How do I turn my suppliers into my bankers?

If you are short on cash, you might be able to negotiate your present supplier payables in a manner where your suppliers will continue supplying you with merchandise as well as taking your old credit and allowing you to pay it off over two or three years with interest. This will increase your cash flow and if successful, let your supplier keep a good Customer.

It's often a good idea to give the supplier you want to use this strategy with a five year purchase contract. You will want to have a pricing floor and ceiling if you decide to

pursue this option. You also must be prepared to give your suppliers the same sort of security arrangements you would give your bank.

### **What I shouldn't do with the government**

In a negative cash flow position it's easy to not pay your payroll taxes for a month or two. It always takes the government that long to figure out what you're doing. However, once the government does figure out you've been using them for a bank they will immediately go after you in any way possible to make sure you pay the overdue taxes.

Also, not paying payroll taxes does not get discharged in a bankruptcy proceeding. If you can't turn your business around, the payroll taxes that you haven't paid will stay with you forever.

### **Communication: the most important component**

Once you have developed a budget that is believable and has a chance for success, you must start communicating your problems to those who can help. This is often your suppliers, your banker and your key employees. You will often have to make adjustments with all three groups.

If your situation is bad enough you will want to hire a consultant who specializes in turn around situations. This person has experience in putting together plans that can work and negotiating with suppliers to give you time for the plans to work. Good turn around consultants are expensive and can be difficult to work with. However, they sometimes are your best hope to put your company back on solid footing.

### **If nothing works, what now?**

If everything you try doesn't work, then it's time to have a conversation with a high-quality bankruptcy attorney. You have many rights in bankruptcy and a good attorney can often help you negotiate your way through this problem without actually having to declare bankruptcy. Under either scenario you want to make sure you stay on the right side of the law. This gives you the best chance of coming out your tough position in one piece.

We at Stage 2 Planning Partners often help our Clients understand their cash and cash flow positions. If you would like to have a conversation about this issue, please feel free contacting us at your convenience.

Warmest Regards,

Josh Patrick

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