

## Turning Around Cash Flow and Profit

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We're not bringing in enough to cover expenses. We're giving away too much work for free. Recently we had to dip into the credit line to stay afloat. I need to turn things around. What do you suggest?

**Thoughts of the day:** Too many expenses, not enough income, and bingo, the checking account is empty. Find out who your friends are, and who could care less if you survive. Look for opportunities to turn a quick buck. Implement long term changes that can move the business forward permanently.

Tapping into the credit line is a short term fix that usually leads to even greater problems. There's interest and principal due on the credit line, along with all of the other expenses. Now there's even less money to go around.

If you find your company is cash strapped, be honest with employees and vendors. Tell employees that bonuses are on hold, and hours may be cut back, or salaries reduced, to get through the cash flow crunch. Ask vendors for terms. Prioritize working with employees and vendors who will work with you.

After making all the expense cuts you can, check your Revenue:FTE Ratio. If it's higher than \$125k / FTE (full time equivalent), don't bother trying to cut staff. Personnel wise, you're reasonably productive. Not sure how to calculate Revenue:FTE? Give me a call, I'll give you a hand.

Check that your firm turns a profit on work completed, every job. This is no time for excuses. Taking on work just to keep people employed is a really bad idea. Salaries are only the tip of the iceberg. Every employee had add-on expenses: phones, desks, benefits, and all of the other infrastructure that goes with having employees. To make a profit, at a minimum, each employee needs to turn in 2 to 3 times as much billable work as they cost.

Build skills in sales and marketing, fast. Learn how to sell 2 - 3 x as much as you need so you can cherry pick the best work for your firm. Don't just chase volume. Only take on profitable work. The last thing you need is to get worn out, working harder instead of smarter. Not good enough in sales? Go to school!

Weed out bad customers quickly. You may not think you can afford to let them go. Au contraire. Time spent hanging onto bad customers keeps you from going after good ones who can value your work and pay you what you're worth.

Make sure all clients are willing, and able, to pay their invoices in full. If customers regularly negotiate for concessions after the fact, they are un-desirable and should be eliminated. Not only do you not make the money you expected, but then you're forced to waste un-billable hours researching and defending invoices.

Spend time figuring out how to turn a quick buck. What are good customers complaining they can't get to? What kind of help are they asking for? How can you make a profit if you supply it? Fill in negative net income months with additional work, rather than trying to do too much in high profit ones.

Even if it's not the highest and greatest work your firm will ever do, if quick turns put additional profit on the table, do it. Sometimes simple solutions are the most valuable. Pick up products or services that good customers would willingly pay for. Even better if you can get clients to pre-pay to get what they want.

As you start to dig out of a cash flow hole, make sure you know the status of your cash position at all times. Build up to one month of cash on hand, then three months, and ultimately six months of cash on hand.

Be careful paying down credit lines as you turn things around. Put half your extra funds into paying down debts, and half into savings. That way, if the bank should decide to re-negotiate your credit line terms, you'll still have your own cash to fall back on.

Looking for a good book? *Reversing the Slide: A Strategic Guide to Turnarounds and Corporate Renewal*, by James B. Shein.

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