

Problems that New CEOs Face
*Advice on how to handle business and
personal issues*
Correct Capital



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One thing I tell every entrepreneur: Cash may be king, but cash flow is the emperor of the world. Businesses live and die on cash flow – this is what your company has in the corporate checking account today. That cash flow determines your business viability. I have seen profitable companies with a nice growing business and lots of interested potential customers go out of business because they ran out of money. Why? Their cash flow went to zero.

When you start your business, you have to do a thorough and honest evaluation of your cash needs. Expenses – how much does it truly cost you to live on a monthly basis? Mortgage, school, food, customer meals, cell phones, car loans, insurance, customer lunches/dinners – you have to add it all up. This is your best estimate of what it will cost to live. You must be brutally realistic.

Income - have you identified customers who will commit to become your clients? How much will they pay? Do you have other potential clients? What is the probability they will give you business? How much? When? You need to ask them. If you do not have a reasonable estimate on how much you can expect to invoice when you start your business, you have a greater likelihood of going out of business sooner. If income minus expenses is greater than zero, this means you should have a positive cash flow (money in your corporate checking account) - IF you get paid on time. If income minus expenses is negative, you have a problem with negative cash flow – that is your warning sign.

I remember when I turned over the corporate checking account to my Chief Spending Officer (my wife), and asked her to look at our budget to make sure we were living within our corporate means. She returned to tell me that our expenses were greater than our income. “Yes”, I said, “that is a problem. What are you going to do about it?” She replied, “Cut your allowance.” You have to do whatever it takes to get into a positive cash position, even making personal sacrifices like cutting your business allowance.

I realize that asking people for their business before you even start a company is risky. What happens if the company who currently employs you finds out? They can help you get started in the new business sooner than planned by firing you. But not asking potential clients if they would be interested in your services will not allow you to make a reasonable estimate on what to expect once you start. After all, risk = reward.

Recommendation: Do a detailed cash flow analysis. What income level must you have on a monthly basis to meet your needs? This must include all expenses essential to you. This will show what you need, and what you can reduce in order to survive financially.

Where do you get start up money? It is extremely difficult to get banks to fund start up companies. No matter how thorough your business plan shows your company growing and able to service any bank loan, you will only be able to get a bank loan for the

business as long as you personally guarantee the loan. The personal guarantee means personal collateral to back the loan – the property that you own – paid in full car(s), boat(s), and equity in your home and any rental property. So, you can go to a bank for the loan, but expect a very thorough and diligent review of all your assets that will back the loan. If possible, it is easier to self-finance your start up by using your own money (savings) until you become profitable.

After you have operated as a business entity for several years, your company will be eligible for a company-backed line of credit. Ask your banker how soon you can qualify for this line, and borrow more than you think that you will need – just in case. Once you have a business line of credit, make sure to use it during the year. Borrow against it and pay it back within the loan schedule. Make sure your company is a good credit risk for your bank.

Recommendation: Always look to self finance your company first, or borrow against your assets to get started. After you are in business several years – get a business line of credit.

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