



To: Clients & Friends Of Pro@ctive CPA
From: Mark Wyssbrod, CPA – Managing Member
Date: May 3, 2009
Re: More To Business Than Just “Cash Flow”

For the past 15 to 20 years the economy has been so good for small businesses they paid more attention to cool sounding words like “cash flow” and “P&L” (“Profit & Loss”) without really understanding the concepts behind them. Now the score card for small business has changed and although cash flow and profit and loss reports are important, the new emphasis is on the balance sheet and action plans for the future.

The term cash flow has been popularized in advertisement and small business society. Unfortunately the concepts behind cash flow are more than cash coming in and going out. As small businesses have found out in the past two years once cash flow turns sour the overall company’s financial position has deteriorate so much it causes a multi-year hardship and development of a turn around plan (depending on the economic environment).

Additionally, small business owners like to make sales. The excitement of the hunt and rush of a new client victory leads many small business owners into lower margins. So although the revenue looks good and increasing, gross and profit margins are usually squeezed to the point which does not allow room for error or long-term profitability (the more you sale the less profitable you are due to scales of economy).

Also, many small business owners believe they have to display a successful life-style. This mis-guided belief leads the business owner to misuse their profits. They misuse their profits by increasing their life-style (which many cannot afford) instead of using their profits to reinvest and re-position their company.

The result of the misguided has been left across our economy by most small businesses, and has resulted in small businesses with no or little current assets, no or little equity, but lots of short-term and long-term debts. Debts continued to increase since cash flow and profit and loss statements to not reflect the debt amounts. Until the past 12-18 months no one care about debt levels, not even banks which were loaning it at the time. Warren Buffet did warn us years ago with a quote stating “if your business model depends on borrowed money, your existence depends on what the world thinks of you each day.” The small business owners usually have a similar position individually. It is a domino situation. When the small business hiccups a negative cascading effect happens individually. An implosion of the business and individual can happen at the same time.

How can small business correct this situation? How can a well managed business improve their future? Fred Crawford of AlixPartners states “The companies that prevail in the future economy will be those that take proactive action to prepare, action even more dramatic than man ha e contemplated thus far.” Mr. Crawford surveys strongly



point to the need for companies to urgently examine their underlying business assumptions and strategies and to significantly retool core elements such as volume projections, product mix, manufacturing and supply-chain footprint, and general and administration costs.

In conclusion, immediate action must be taken to reinvent and reposition small businesses for the future economy. Small business owners must become more sensitive to their financial business position and potentially re-capitalize themselves; must review or create a business plan and challenge their underlying assumptions; must become more flexible and agile financially and in business execution; and must keep up with economic events and understand how they affect their business now and in the future. A small business can hire a professional or trusted advisor and form a board of advisors to assist in this process.

Mark Wyssbrod, Proactive CPA, has been helping small businesses achieve their goals since 1999. His proactive philosophy stems from the fact that traditional tax preparers are usually simple historians who react to their client's prior and current positions. Such a reactive stance means trying to fix mistakes after those mistakes are already made. Mark would rather prevent any mistakes in the first place. You can reach Mark at (770) 664-8583.

Citings:

North Native Intelligence market Watch April 2009, Frank Norton, Jr.
Fred Crawford, AlixPartners

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