

Our Handbook for Business, the Bible

The lifeblood of business

A recent study found, *"a growing number of businesses are facing a cash crunch...with a surge in rejections for finance amid sliding consumer spending; many were already in strife before applying"* (Herald-Sun 11/10/24).

Interestingly, a business can be profitable but still bleed to death from a lack of cash due to poor management!

An infamous example was HIH Insurance in 2001 - an ASX listed company reporting positive profits but negative cashflows! In an interview the CEO said, *"HIH is in turmoil. It's not a question of profitability; it's a question of survival. It's not an asset problem that scares me, it's cashflow that keeps me awake at night. We are slowly dying a death of a thousand cuts"* (Rodney Adler)

My counsel for business owners:

When a person is sick the doctor will order a blood test to help isolate & diagnose the problem because so often it shows up in the bloodstream.

When a business is sick it's blood also needs testing. That blood is the cash flowing in and out of the operation, not profit or taxable income so often the focus of accounting reports.

The early signs of failure inevitably show up in the cashflow; and you don't need a doctor to take a blood test...YOU can do it yourself in 3 simple steps:

- Step 1:** In the Reports section of your accounting program locate the 'Summary of Cashflows'
- Step 2:** Date range & print the last 12 months and the previous 12, giving 2 years of blood tests
- Step 3:** Focus on the 2 categories of cashflow - operating; and non-operating which includes financing & investing activities.

What you want to see is an operating cash surplus **greater than** the non-operating cash deficit; if it's less, the operations aren't generating enough cash to cover the non-operating activities...this overall cash deficit is a sure sign of trouble brewing.

If OPERATING cashflow is poor, you need to diagnose two things...

First, is it a TEMPORARY situation maybe caused by a blowout in trade debtors or trading stock such that the cash is in their bank or on the shelf instead of in your bank; this should not be too difficult to fix

Second, is it a TREND requiring professional help to find the root cause & implement the best fix.

The Bible, our Handbook counsel for today, Leviticus 17:11 - New Living Translation...

"...for the life of the body is in its blood..."

Other Scriptures (NKJV):

Genesis 9:4, *"But you shall not eat flesh with its life, that is, its blood"*

Proverbs 22:3, *"A prudent man foresees evil and hides...but the simple pass on and are punished"*

Proverbs 27:23, *"Be diligent to know the state of your flocks, and attend to your herds"*

Proverbs 11:14, *"Where there is no counsel...people fall...in the multitude of counselors...is safety"*