10 DO'S AND DON'TS FOR MANAGING CASH FLOW

For most publishers, cash flow is more important than even profit margins. This is because most of a publisher's investment is used as working capital that keeps the business running. As CFO at Lane, I have the benefit of seeing how hundreds of publishers manage the funds that flow in and out of their businesses, including what works and what doesn't. Here are some tried-and-true tips for effective cash-flow management in a publishing enterprise.

Do:

1 Have a qualified accountant on your team.

At the least, this should be someone who knows the principles of accounting and can probe around the integrity of your bookkeeping. If that expertise doesn't exist in-house, then create a relationship with a good CPA or financial consultant. The advantage here is that such a person has seen a lot of other businesses and can act as a valuable sounding board for questions like: How much is too much debt? Should we buy or lease office space?

2 Invest in an annual audit.

Yes, an audit. Not just a review. Not just preparation of your business tax returns. And, yes, it is an investment. Even if you have accounting expertise on your team, it's still critical to get an audit of your books every year. This formal review will not only guard against fraud (see Don'ts), but it will give you and others (e.g., lenders) the confidence to make business decisions knowing that your financial picture is accurate and trustworthy.

3 Create a working capital plan, and follow it.

As a rule of thumb, the assets in your formula for working capital (*current assets – current liability*), should be double your liability. It takes discipline to maintain this ratio, but it will help you steer clear of the most common cash flow trap: "How can I generate enough billing to pay for my last issue?"

4 Keep your working capital sources in balance.

Think of your sources of capital (trade credit, bank loans, and personal equity) as a three-legged stool. You cannot lean on any one of those too much without breaking something important.

5 Balance the flow of your payables and receivables.

Your payables and receivables should cycle as closely as possible to each other. That is, if you're paying your bills on 30-day terms, you need to be collecting on those same terms.

Don't:

6 Give one person complete financial responsibility.

It happens time and time again: A trusted, even long-time employee who has total control of the books in a small business succumbs to the temptations of fraud — and can cover the trail. The simple solution: The person who reconciles your cash accounts should not be the same person who writes your checks and makes your deposits. Here's where outsourcing at least one of these functions can make great sense.

7 Accept anything in payment other than cash.

Resist the temptation to accept a promise in lieu of payment. (i.e., "If you extend our payment terms for this ad, we'll commit to ad placements in the next six issues.") Ask yourself, if they can't pay for one ad, how are they going to pay for more? And avoid in-kind payments. They may sound enticing, but at the end of the day, you can't pay your bills with anything but cash.

8 Extend your own payment terms.

Just like with that advertiser, it's tempting to ask your vendors for extended payment terms in situations where you find yourself under-capitalized. But here's the problem: The bills don't go away. What can start as an extended payment or two can quickly turn into significant debt. Your options and freedom to act can quickly diminish.

9 Hide from a problem, if you find yourself in one.

Talk to your major vendors early. There are creative and effective ways to help you manage costs and pay down debts. A vendor who wants a long-term relationship with you will be willing to help multiply your options because you both have the same objective, which is for your business to thrive.

10 Let things get adversarial.

Whether you're dealing with a vendor or an advertiser, a negotiated solution is the best resolution. With a little patience and perseverance, all parties end up satisfied and, ideally, with a strong working relationship intact.

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