

Fundamentals still key for entrepreneurs during downturn



BY GLEN J. KATLEIN
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During this economic downturn, the concerns of the entrepreneur are the same fundamental financial management factors that prevail during times of economic growth. The entrepreneur (and CFO) must address how recessionary Gross Domestic Product (GDP) levels impact the magnitude of those factors.

The entrepreneur (and CFO) must plan and strive for long-term sustainable cash flow and profitability growth. Reliable and timely cash-flow forecasts and tracking will be critical, to identify necessary short-term adjustments. There is no magic pill. Short-term decisions must be a prudent part of a long-term plan.

The first thing on many minds is the impact on lending. Contrary to popular sentiment, lending has not hit a brick wall for e#credit risks based on modest underwriting scrutiny during credit expansion will still be prudent credit risks with more diligent underwriting scrutiny. Marginal credit risks approved by deteriorating lending standards during the recent credit expansion will now be denied. One research analyst says history shows we should expect a 20-percent contraction in loan balances as the aftermath of the economic crisis.

A related question will be the impact on investors and start-ups. There are still many investors and buyers with capital, looking for opportunities where the risk-reward trade-off will

provide returns better than holding cash. The fundamental issues will still be 1. Proof of concept; 2. Market validation of the product or service; 3. Executing the launch of the product or service; and 4. Executing growth of the product or service. Investors and buyers will continue to perform due diligence to assess the business model and ability to achieve sustainable growing cash flow and profitability.

The entrepreneur (and CFO) must execute fundamental financial management decisions. If the business model includes several distinct revenue sources with varying profitability dynamics, each revenue source and related costs should be separately reported. The business plan, reporting, and forecast should include:

- Measurable business processes and key drivers to enable more timely decisions
- Effective incentive plans, including guards against lower profit product substitution
- Pricing strategy supported by effective pricing models and guards against lower profit product substitution
- Diligent credit policy including current assessments of existing customers
- Thirteen-week cash flow tracking and forecasting
- Timely and effective use of bank line-of-credit facilities

- Accurate awareness of the real cost of factoring, if used

- And Customer retention, customer satisfaction, and customer driven standards

Prudent financial management, based upon meaningful and reliable management information, will enable the entrepreneur (and CFO) to identify proactive strategic adjustments to weather challenging times. Ultimately, the entrepreneur, the customers, the lenders and the investors share the same concerns. Is the business being managed to provide valuable products/services and customer support on a sustainable basis? How able is the balance sheet to weather the recession? How will the company perform during the recovery and be positioned for the next period of economic growth? I like the analogy that many sailors can handle the boat when the waters are smooth; however, the true test of the sailor is during a storm. During this economic storm, entrepreneurs (and their CFOs) must now demonstrate their abilities at managing the fundamentals of financial decisions.

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