CASH RULES

LEARN & MANAGE
THE 7 CASH-FLOW
DRIVERS FOR YOUR
COMPANY'S SUCCESS

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KIPLINGER BOOKS
Washington, DC

Acknowledgments

Taking something I know and care about, in this case the cash-flow issues underlying almost every business question, and then writing a book about it proved to be a much bigger task than I ever expected. Without the help and encouragement of several key people right from the outset, I may not have seen the job through amid the press of so many other time demands. My heartfelt thanks to those early readers and encouragers: Al Weitlich, my Dad, Ed McGuinness, and most especially my lovely wife—thanks Kath for all your help and patience with the book and with me.

A great source of wisdom who helped greatly in giving the manuscript organization and structure was my agent, Karl Weber, who loves books of all kinds and specializes in business books.

Then came the talented editorial team of Arnold Dolan and Hilary Hindsman, who mercilessly worked me and the book over through several drafts. Last but most important is publisher David Harrison, who carefully oversaw the whole project and always knew when to step in and when to step back. He became, as I guess publishers always do, the final editor and never let me stop thinking about how you, the reader, could best be helped to understand and use the principles of *Cash Rules*.

Many thanks, too, to Heather Waugh for her fine eye for design of the book and cover and to Rosemary Neff for her outstanding word sense.

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Introduction

Cash flow is the Rodney Dangerfield of business management. It never gets the respect it deserves—that is, until a business runs into trouble paying its bills. Cash is like the air that we breath: It's taken for granted, but desperately missed when cut off. And like that other precious commodity, water, we tend to overuse it when it's plentiful, regretting our profligacy only when the flow slows to a trickle.

The study of cash-flow management doesn't get its due these days for one simple reason: The U.S. economy has been awfully good for an awfully long time. In most major business sectors, sales have been growing strongly. Credit—both short-term operating lines and long-term debt—is readily available. And best of all, investors have been only too eager to throw venture equity at every half-baked idea that comes down the pike.

When business is booming like this, it's no wonder that a lot of managers and stockholders have become rather blasé about cash flow. Boom times breed sloppy habits, such as overstaffing and overspending on everything from marketing to administrative overhead. And, consistent with the old adage that you never spend someone else's money as carefully as you spend your own, this overspending is especially flagrant at start-up firms that are running entirely on outside capital.

To help combat these bad habits, I commend to you this wonderfully wise and readable new guide to cash-flow management, by business consultant Bill McGuinness. It comes along at just the right moment in the U.S. business cycle—just in time to refresh the memories of a lot of older executives who have lived through both good times and bad times, but who may have forgotten the latter. More significantly, it should be mandatory reading for every young business manager who may have gotten the impression that cash grows on trees, or bubbles up from the ground, or—more to the point—arrives every payday in the bulging satchels of sugar daddies known as venture capitalists.

Traditionally, new businesses were content to grow at a moderate rate, and this was perfectly acceptable to their financial backers, whether bank lenders or stockholders. A plan of moderate growth gave the new business plenty of time to test its products and services, get to know the market, listen to its customers and find the right people to staff the enterprise. A business plan calling for moderate growth would also conserve cash, giving comfort to lenders and investors. And it would increase the odds of reaching profitability fairly early, albeit at a modest level. If all went well, the new business would prosper over time, gradually winning market share from other firms in the same field.

But the business boom of the 1990s turned these traditional rules upside down. An assumption took hold—mistakenly, I believe—that victory will always be won by the company that hits the market first and fastest with a new concept. The new mantra is "rapid growth at any cost." Cash is something not to be managed but to be spent as quickly as necessary to gain the greatest market share. Another assumption of the New Economy—also mistaken—is that additional rounds of outside capital will always be available to fuel the business, so long as the firm's revenue and market share are growing fast.

As Mr. McGuiness writes in *Cash Rules*, "Growth takes cash, and fast growth takes lots of cash." Old-Economy executives have long been aware of the treacherousness of overly rapid growth. In their long careers, they've seen many potentially successful businesses do themselves in by forcing growth too fast so that product quality or customer service suffered and the cost of over-expansion badly outstripped revenue before more financing could be lined up.

Now it's the New Economy's turn to learn these same time-tested lessons. "Business doesn't run on sales growth; it runs on cash," Mr. McGuiness writes. "Business doesn't run on even the best and most realistic prospects for the future, unless the immediate future contains enough cash to pay your bills."

Bill McGuinness is a passionate apostle of cash-flow management, and he knows of what he speaks. He's got a Harvard MBA, but the lessons he'll teach you include many that he didn't learn in business school. He got on-the-job training in analyzing cash flow when he served as a senior banking executive with Citicorp and Wells Fargo. (Bank lending officers, he notes, had better understand cash flow inside and out if they want to see their loans repaid.) He learned even more as an entrepreneur himself, in three different businesses. As a business consultant and seminar leader, Bill has taught cash-flow management to bankers throughout the U.S. and Canada. And he developed, at Lake Superior (Michigan) State University, one of the first MBA-level courses devoted entirely to cash-flow management.

Here at the Kiplinger publishing organization, we have tried to follow sound practices of cash-flow management throughout the 80 years of our existence as a closely held business. We have been rewarded with decades of steady, if unspectacular, growth in revenue and earnings. But more important, along the way we have earned a reputation for corporate integrity among the people we do business with—our lenders, stockholders, suppliers and subscribers. And we sleep well at night—a benefit not to be slighted in these harrowing times of cutthroat competition. These are the true dividends of sound business management.

On behalf of my colleagues and me, I hope that your business will benefit from the advice in this book, and I wish you the best of success in the challenging years ahead.

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The Kiplinger Letter, kiplingerforecasts.com
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October 2000