

Capital Corner

Mirror, Mirror on the Wall, Who Has the SUCCESSFUL Business of Them All?

By Jim Morphey, Vice President of Corporate Development, GE Capital, Commercial Distribution Finance

When was the last time you stepped back and took an objective look at your business, or asked someone else who could be objective to do so? It is especially important now for a successful business owner to be aware of how customers, suppliers, investors, competitors, employees, and creditors view his/her business.

This includes the store's appearance -inside and out, store employees, merchandise displays, website, social media sites, advertisements, and your overall branding messages. Your suppliers may be just the objective party you need, and most would be happy to share their invaluable perspectives with you. They have the benefit of seeing many best practices from hundreds of other appliance businesses.

As many recent signs point to a gradual economic and industry recovery, now is the time to make sure you are ready for growth. This often translates into the need for more capital to fuel opportunities. Successful businesses anticipate opportunities and prepare for them. Just as important as your store appearance, it is also important to make sure your finances are in order and appeal to creditors. That way, they will be ready to grow with you by increasing your credit capacity.

Here are some of the more important factors most lenders consider when evaluating a business credit line:

- **Business leverage** – debt to capital ratio. Generally the higher the leverage, the higher the risk that the business will be able to service its debt

- **Profitability and retention of profits.** Hopefully the business is profitable (or returning to profitability). Retention of profits is important to grow its capital base to fuel future growth.

- **Tangible net worth** – many lenders tend to exclude Good Will, leasehold improvements and other assets considered to be intangible when evaluating risk and credit worthiness

- **Terms versus Turns** - do payable turns and inventory match up? If they differ significantly, that could be an indicator that there is a cash flow problem.

- **Cash Flow from Operations** – is the business generating positive cash flows or relying on debt or vendor terms/volume rebates for liquidity? Significant reliance on customer deposits for cash flow is another red flag

- **Sales and Gross Margin trends** should be both showing positive trends over time.

- **Quality and frequency of financial reporting** is important. Once a year financial statements are probably not enough anymore to react to fast paced market, industry, and economic trends



There are numerous sources of third-party business consultancy services available. The chances are excellent that your suppliers, buying group, or lenders can direct you to those resources. In addition, volunteer business networks such as SCORE (www.score.org) feature previously successful entrepreneurs and executives who are dedicated to helping others.

So as you prepare to step out into tomorrow's marketplace, be sure to take one final look in the "mirror". A little review and planning now may be the best preparation for growth tomorrow.

For more information, visit www.cshpi.com.



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