

## Reducing overhead helps get credit line

Bruce Freeman

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**Q. I have heard lots of rumors in the news that banks won't lend, but I may need another line of credit soon. What should I do?**

**A.** A bank is going to look at your debt-service ratio, or the ability that you have to service any current and additional loans or lines of credit that they may extend to you. Since your ability to pay back the loan will be based on your debt-service ratio, you need to do as much as possible to begin to increase the cash account in your company.

According to Drew White, CFO of Sageworks, "one of the first and most practical actions you can take is to get rid of any unnecessary spending. Eliminate or reduce unnecessary overhead or fixed costs that will reduce total monthly expenses. Even small decreases in overhead will typically yield large cash savings over time, especially if fixed costs can be reduced."

Next, carefully manage order points for inventory. Use a system that allows the business to order only when needed so cash is not tied up in merchandise.

Avoid pre-paying expenses on accounts payable so you keep funds inside the business (potentially earning interest) for as long as possible.

It is generally not a good idea to pay bills earlier than the terms agreed upon. Use trade credit fully. Discounts may be an exception.

Term out any short-term debt if possible – move some short-term debt down the balance sheet to long-term debt. This relieves pressure from cash flow by lowering short-term payments.

In a tightened credit environment, you need to manage your working capital so that you can depend less on getting additional credit access in the short term.

If possible, borrow some long-term money and put it into a cash account.

Prepare yearly forecasts that show cash-flow levels at various points.

Consider updating these forecasts monthly or even biweekly. This can help predict and prepare for potential cash shortfalls.

Monitor the effect that tax payments might have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.