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Manage your capital, banker

The big winners in 2013 and 2014 will be companies with access to capital. While the stock market is trading at all-time highs and the press is talking about economic recovery, let's not forget we're living in a higher tax environment and still have Obamacare costs looming. Remember: Net profit dollars drive your business and the costs mentioned above will have an impact.

I'm not trying to temper the improved sales performance we're seeing or a general feeling of optimism among companies, because the phone *is* ringing. But the fact is, profit is where it's at and costs will continue to rise. Do you have a plan? Is your banker on board?

Winning companies need to rely more on internally generated cash and at the same time solidify their banking relationships with a solid story. As a result, these companies will have access to relatively inexpensive money when they need to purchase assets, buy a company or simply fund accounts receivable during peak season. This is a huge competitive edge.

There are only three sources of capital: your profits, your bank or an equity investor. For most firms, equity money is either too expensive or simply not available. This leaves profits and bankers. And today more than ever bankers want you to prove that you don't need the money before they lend it to you. Therefore, you must find a banker who buys into your growth plans. Here's what you need to do to solidify your story.

Demonstrate to yourself and your bank that you have the ability to cash flow new and current debt obligations.

› Take the time to update a mid-year rolling pro forma projection that focuses on your income statement. Use your year-to-date 2013 actuals plus forecast on a monthly basis your remaining revenue, direct costs, indirect and selling, general and administrative expenses to generate a projected net profit for 2013.

› Look at your current amortization schedules on existing debt and spread the remaining 2013 required principle payments against each month's net profit.

› Take the amount of any new loans you're trying to get approved and put the details into an amortization schedule. Add the expense against the bottom-line profit and on top of the existing principle debt payments.

› Look at your monthly net income and annual net income after backing out the principle payments on the "old" and "potential" new debt. What's the ratio? Is your profit versus debt 1.5:1 or better? Are you upside down? If so, "the numbers" don't cash flow. Keep in mind a 1:1 ratio puts you at broke; 1.5:1 or better is the target.

› Lastly, look at the results of the above exercise. You may need to revise how much money you ask for in a loan or try to cut operating costs. You may need to try to refinance existing debt.

Check all three of your credit reports.

Pull your credit reports from Equifax, Experian and Transamerica. Review your score and any negative comments or incorrect information. Address any negatives with your banker. Note that a score of 650 or less makes things difficult. Take action to clean things up prior to a midyear checkup with your bank.

Know what collateral you have available.

To get any new capital, what assets will the bank lien? The first step is to know which assets are or are not encumbered. Next make sure the free asset values mesh with the requested loan amount. No collateral, no loan!

Take this approach prior to your midyear visit with your bank. It will impress your banker and help set your own expectation on where you stand.

Lastly, don't forget that even when credit markets are slow, lending money is every bank's business. They must do it. Do your homework, make the plan and hunt for the best source of capital. It's perhaps the most important business strategy for the coming year.