Cash: The #1 Reason Profitable Businesses Still Struggle to Pay Bills

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Denise Carver runs a $9 million commercial staffing firm in Little Rock. Last October her CPA slid the year-end statements across the table and congratulated her: $640,000 in net profit, her best year in eleven. She took her leadership team to dinner that night. She ordered the good steaks.

Three weeks later, on a Thursday afternoon, her office manager Brenda appeared in the doorway holding a printout the way you would hold a wasp.

"We can't make payroll tomorrow."

Denise laughed. Brenda did not.

"Brenda, we made six hundred forty thousand dollars this year."

"That's nice," Brenda said. "The bank doesn't take that. They take money."

Profit Is an Opinion. Cash Is a Fact.

There is an old accounting line that every owner learns eventually, and the lucky ones learn it from a book instead of a Thursday: revenue is vanity, profit is opinion, cash is fact.

Here is what it means in practice. Your income statement records revenue when you earn it, not when you collect it. Denise bills her clients on net-45 terms. She pays her temps every Friday. So every single week, she fronts an entire payroll out of her own bank account, then waits. Her contracts say 45 days. Her customers' accounts payable departments say 58.

Then she landed the distribution-center client she had chased for two years. Revenue jumped. Profit jumped. And her cash position got worse, because the new client pays in 60 and every new shift she staffed meant more wages out the door today against an invoice that pays this fall.

That is the trap in one sentence: growth eats cash first and pays you later. The faster you grow, the hungrier it gets. Plenty of companies have grown themselves straight out of business, profitable on paper the whole way down.

Where the Money Actually Went

After the payroll scare, Denise and I sat down and went hunting for her $640,000. It did not take long to find. None of it was stolen and none of it was wasted. It was simply promised to more places than it existed.

About $310,000 of it was sitting in accounts receivable, which is a polite way of saying it was in her customers' bank accounts, earning interest for them. A healthy piece of that was past due, because nobody at the company actually owned collections. Her collections process, as near as I could tell, was hope.

Another slice went to loan principal. This is the one that surprises almost every owner: interest shows up on your income statement, but principal does not. You pay principal with after-tax dollars, and it never appears as an expense anywhere. It just quietly leaves.

The rest was spoken for by the tax bill on that beautiful profit, a software system, and the distributions Denise had taken because, after all, it was a record year. Every one of those was a reasonable decision. Together, they emptied the tank.

The Questions That Keep You Out of Thursday Meetings

Denise made payroll that Friday, barely, by drawing on a line of credit she had almost let lapse the year before. Then we made sure there would never be another Thursday like it. Not with heroics. With three habits.

First, she now knows her weeks of cash on hand the way she knows her own phone number. A simple thirteen-week cash forecast, updated weekly, turns "I think we're fine" into "we are fine through November 6, and here is the week that gets tight."

Second, she watches the gap between how fast customers pay her and how fast she has to pay out. That gap, measured in days, is money she is lending her customers at zero percent. For years, Denise was her clients' most generous banker. She just never got a toaster for it.

Third, she sized her credit line before she needed it, while the numbers looked good. Banks are happiest to lend on sunny days. Ask Denise what they say when it is raining.

The next year, her profit was a little lower. She spent some margin on a collections hire and tighter terms cost her one price-shopping client. Nobody at the company has held a printout like a wasp since.

Closing Reflection

Profit tells you the business model works. Cash tells you whether the business will survive long enough to prove it.

You do not pay people with profit. You pay them with cash. The owners who sleep well are not the ones with the biggest number at the bottom of the income statement. They are the ones who know the difference between the two, in writing, every week.

The question is not whether you made money last year.

The question is whether you know, right now, how many Fridays you can cover.