

IS YOUR COMPANY FINANCIALLY HEALTHY?

PNC Expert Shares What Sets Some Apart

By Matt Ottinger

Understanding the fundamentals that make a business “financially healthy” is more complex than some realize. Certainly, revenue and profits are driving forces, but it’s a concept that can be somewhat nebulous.

Pamela C. Anderson is PNC’s regional sales leader over central and southern Indiana. She has extensive experience in business banking, holds a Master of Business Administration from Anderson University and stresses that financially healthy companies are “aware of cash flow.”

“They understand that debt is a positive strategic tool to use,” she asserts. “I believe that they are ones that take advantage of any of those treasury management, merchant processing, modern technology tools that help them drive their day-to-day businesses.”

“They also find resilience in building cash reserves,” Anderson adds. “They understand any of those specific financial ratios that are attached then to the debt that is used to build out their business.”

Furthermore, she points to mitigating risk and a strong board of directors or advisory board as key characteristics.

Feeling the ‘flow’

Elaborating on the cash flow concept, Anderson stresses it’s more important than simply building revenue numbers.

“It’s great to have sales on paper, but if the money’s not coming in when you need it, operations can stall,” she points out. “An approach that we tend to utilize is forecasting tools. So what’s that 30, 60, 90 days look like for them?”

“And that approach means you don’t have business owners that are lying awake and worrying about how they’re going to pay their bills. They’re planning ahead and they’re securing financing in terms instead of reacting under the pressure that they can feel.”

Debt is also a piece of the puzzle. However, perhaps not in the way some may



The totality of what makes a company financially healthy includes several key factors. PNC’s Pamela C. Anderson helps clients understand these criteria to put themselves in the best possible position.

think. According to Anderson, debt needn’t always have a negative connotation.

“Debt really gets a bad reputation, and it’s time to reframe it as that strategic tool,” she recommends. “For example, if a restaurant is looking to take a loan for a second oven so they can double their capacity on a Friday night.”

Focusing on ensuring each borrowed dollar has a clear purpose and a path to generate more revenue is the critical piece.

“It’s about using credit lines or loans to capture opportunities and buying large pieces of inventory or getting things on discounts,” Anderson remarks. “And then also any type of equipment upgrades rather than just covering shortfalls all the time.”

Resilience is brilliance

The COVID-19 pandemic served as a challenging moment for most businesses, and Anderson contends it exemplified the need for “that resilience piece” for companies and organizations of all kinds.

“Making sure that you’ve built those reserves, having cash on hand and looking out from a three- to six-month (perspective) for those expenses, it creates a safety net,” she outlines. “For situations like COVID that did

come up, they have to save beyond what they truly anticipate they need and then also (ask), ‘Is there an investment policy in place for them when they have those additional reserves that is going to allow their money to work for them?’ ”

This becomes imperative when chances arise, like buying inventory on a discount or acquiring a competitor or competing within the market, so a business can act quickly at the right opportunity.

She adds, “Then there are ways that you can set up for those automated savings and tiering funds like CDs and money markets. It’s all about discipline, but it’s also about flexibility. So, it’s really combining those two things (and asking), ‘How do we get the resilience of saving, but also the capability of having access to capital for emergency needs?’ ”

Risky business?

Another avenue for financially healthy companies is separating business accounts. For Anderson, that includes separate accounts for deposits, payroll and savings needs, especially.

“Having everything in one account when you first start off – a small business may have something in one account – it opens them up to risk and (separating them) ensures that

they've kind of bifurcated or separated that risk out and allows for them to manage the funds in a more direct manner."

Another key concept to understand is "financial ratios," which Anderson believes can be intimidating to business owners.

"We're not asking for them to be the experts in these, but it does tell the story of the larger business," she offers. "It's not just about the revenue; current ratios show if you can meet short-term obligations."

Anderson lays out the ratios to understand their potential purposes: "(Matching debt to assets post any liabilities) reveals how leveraged a company is. And then understanding these metrics helps owners make smarter decisions like consolidating high-interest debt or improving working capital."

"It's not about being an accountant," she clarifies. "It's about using these numbers then to strengthen the business and position it better for financing terms, and then ultimately their long-term success."

Getting real about AI

Like most industries, artificial intelligence (AI) has become part of the banking world for some time now.

"That's where we dig into treasury management and digital tools that are available; that AI component is able to pull in data that can quickly be analyzed and help our clients understand how their payments are made, how their payments are received (and) how they can then keep cash on hand working for them the best way," Anderson shares.

She adds, "So, if we have business owners that aren't utilizing

treasury management tools simply as online banking or ACH or wire capabilities, we highly recommend that they do get in touch with their banker and establish those because it's going to help them."

AI is now also a tool to combat risk.

"I bring up the risk component and the idea of fraud that goes on in our industry," Anderson begins. "AI is a big support of that, and we have a very robust program within our organization to help clients ensure that their funds are safe."

Closing advice

"Life moves really quickly when you're a business owner," Anderson imparts, noting reference guides are key when circumstances become hectic.

She reiterates that a board of directors or advisory board become valued consultants, not to mention other resources.

"Include your business banker, include your CPA tax advisor and your attorney, and then make sure that you have regular financial checkups with them," Anderson suggests. "I recommend quarterly reviews to keep ahead of any of the challenges and the positions to help seize in those opportunities at minimum.

"You can never have overcommunication with your advisory board," she concludes. "But when you combine that proactive planning with expert guidance, you're not just getting to the point of what's next; you're shaping that strategy that's going to support the long-term growth and resilience of the business."

RESOURCE: Pamela C. Anderson, PNC, at www.pnc.com

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