GROWING WITHOUT RUNNING OUT OF CASH

Why growth eats cash, how to calculate what you'll need, and ways to fund growth safely.

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AT A GLANCE

- Growth usually **uses cash before it brings cash in**: more inventory, staff and supplies are paid before customers pay you.
- Fast-growing, profitable businesses can still run out of money. This is called **overtrading**.
- Plan your **working capital** needs, and arrange funding before you need it.

Why it matters

Many businesses fail while growing, not while struggling. A big new contract or a busy season can drain your bank account because costs come first. Planning ahead turns growth from a risk into an opportunity. See **M-06 Cash Flow: Why Profitable Businesses Still Run Out of Money**.

Example: Grace's big contract

EXAMPLE

Grace wins a hospital contract worth **$20,000 a month** in sales. Ingredients and staff cost **60%** of sales ($12,000), paid each month as she goes. The hospital pays **60 days** after each invoice.

	Month 1	Month 2	Month 3	Month 4
Costs paid	$12,000	$12,000	$12,000	$12,000
Customer payments received	$0	$0	$20,000	$20,000
Net cash for the month	−$12,000	−$12,000	+$8,000	+$8,000
Running total	**−$12,000**	**−$24,000**	**−$16,000**	**−$8,000**

Grace needs about **$24,000 of extra cash** to take on a profitable contract. The cash only comes back after month 5. Without planning, this good news could have sunk her.

Ways to fund growth

Option	Good for
Profits you've saved	Steady, slower growth
Customer deposits or faster payment terms	Big orders and contracts
Line of credit	Covering timing gaps. See **R-07 Equipment Financing and Lines of Credit**.
Invoice financing	Getting paid early on approved invoices, for a fee
Equipment financing	New equipment. See **R-07 Equipment Financing and Lines of Credit**.
Term loans	Bigger, planned investments. See **R-06 Small Business Loans and SBA Loans**.
Equity investment	Fast growth that debt can't support. See **R-13 Debt vs. Equity: Borrowing vs. Selling Ownership**.

Step by step

1. **Forecast cash month by month** for the growth plan. See **M-16 12-Month Cash Flow Forecast**.
2. **Find the lowest point**: the most cash you'll be short.
3. **Add a cushion** of 20% or more.
4. **Arrange funding before you start.**
5. **Negotiate terms**: deposits from customers, longer terms from suppliers.
6. **Track weekly** during growth.

Common mistakes

- **Saying yes to big orders without a cash plan.**
- **Using profit numbers instead of cash numbers.**
- **Growing several things at once.**
- **Arranging credit only when you're already short.**

Your checklist

- ☐ Forecast cash for your next growth step
- ☐ Find your lowest cash point and add a cushion
- ☐ Arrange funding in advance
- ☐ Ask customers for deposits and suppliers for terms
- ☐ Track cash weekly while growing

Key words, explained

Word	What it means
Working capital	Cash available to run the business day to day.
Overtrading	Growing faster than your cash can support.
Invoice financing	Borrowing against unpaid customer invoices.

Where to go next

- **M-16 12-Month Cash Flow Forecast**
- **R-07 Equipment Financing and Lines of Credit**
- **G-13 Growth Plan Template**

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