

Mirror, mirror on the wall, who has the most successful business of them all?

By Jim Morphey

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When was the last time you stepped back and took an objective look at your business? Or asked an objective third-party to do so? Successful business owners need to be aware of how customers, suppliers, investors, competitors, employees, and creditors view them.

This includes the store's appearance, store employees, merchandise displays, website, social media platforms, advertisements, and overall branding message. Your suppliers may be the objective party you need to reach out to. They would most likely be happy to share their perspective. They may have observed alternative best practices from hundreds of other businesses and experiences.

Growth often translates into a need for more capital to fuel opportunities. Successful businesses anticipate opportunities and prepare for them. Just like a store's appearance, it is important to make sure finances are in order and appeal to creditors. That way they will be willing to grow by increasing your credit capacity.

Here are some important factors lenders consider when evaluating a business' credit line:

- **Business leverage.** Debt-to-capital ratio. Generally the higher the leverage, the higher the risk that the business will be able to service its debt.
- **Profitability and retention of profits.** Hopefully the business is profitable or returning to profitability. Retention of profits is important to grow a capital base and fuel future growth.
- **Tangible net worth.** Many lenders tend to ignore goodwill, leasehold improvements, and other assets that are considered "intangible" when evaluating a business' risk and credit worthiness.
- **Terms versus turns.** Do payable turns match up to inventory? If they differ significantly it may be indicative of cash flow issues.
- **Cashflow from operations.** Is the business generating positive cash flow or relying on debt, vendor terms or volume rebates for liquidity? Significant reliance on customer deposits for cashflow can be a red flag.
- **Sales and gross margin trends.** These two should trend positively over time.
- **Quality and frequency of financial reporting.** This is important. Producing financial statements once a year may not be enough to react to the fast-paced market, industry, and economic trends.

There are numerous third-party business consultancies available. There is a good chance that your suppliers, buying group, or lenders can direct you to those

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resources. Additionally, volunteer business networks such as [SCORE](#) feature successful entrepreneurs and executives dedicated to helping others.

Be sure to take one final look in the “mirror.” A little bit of time spent reviewing and planning may be the best preparation for tomorrow’s growth.

Jim Morphey is the vice president of corporate development for Wells Fargo Commercial Distribution Finance (CDF). Morphey has more than 40 years of management experience in consumer finance, trade credit, and most recently with domestic and international inventory financing, as well as factoring. Morphey's career has been devoted almost entirely to the domestic consumer electronic, appliance, and outdoor power industries. His background includes executive assignments in operations, credit, and relationship management at the national level with Whirlpool, Whirlpool Financial Corporation, Transamerica Distribution Finance, and senior relationship assignments at GE Capital.

Morphey received a Bachelor of Science in Management from Northern Illinois University. He was a member of the Association for Finance Professionals (AFP). He earned professional certifications from The National Association of Credit Management/Credit Research Foundation (NACM/CRF) Graduate School of Credit & Financial Management held at Dartmouth College, and also from The Finance, Credit, and International Business Association (FCIB). Morphey has published many articles on the topics of inventory management as well as cashflow. He also helped produce a six part video series on a variety of cashflow topics which may be found at www.cdf.wf.com/learningcenter. Morphey and his family reside in southwestern Michigan.

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