

## The Cash Flow of Reputation - Credibility is Credit-ability

By Leon Grandy

Christmas is the season of giving. In this the second of a three part series on Cash Flow issues, I am giving you some of my favourite aphorisms. I trust they are as useful to you as they have been to me over the last 25 + years.

In my first article I discussed pricing, profitability and cash flow and that NZ business owners are reluctant to price up and therefore it is essential that they focus on managing trade terms and keeping debtors under control. Don't be timid about pricing up, and never delay collecting your debts - Cash is a verb - not a noun! Either take responsibility, or take the consequences.

This article links two things (reputation and cash flow) that may at first not appear to be related. In my experience they are two sides of the one coin.

Some context: To me business is an inherently social and consensus based activity in all countries, all industries, across all sizes of business, the business of business is universally conducted by four sets of stakeholders: Customers; Employees, Owners and Suppliers. The interactions of these stakeholders is the art, the science and the soul of business. The primary role of a Director is to ensure at any given time and in any given situation, the business has correctly prioritised, resourced and ordered these relationships so it can achieve its purpose and goals with due regard to all the stakeholders interests. The blood and oxygen of the business that allows this is Cash.

Think back to when you first started out in business; Customers wouldn't readily buy your product or service, they didn't know you or your offering. Now they know who you are, what you do, how desirable it is for them to have your product, how much you charge, and how to get hold of you or your product. Reputation **is** the core of your revenues and sales volumes are dependent upon it.

Later, in your business life, premium pricing was possible as your reputation marked you out for excellence and high demand, a brand cache developed. Reputation leads to bargaining power, price elasticity, margin expansion and profitability.

When you started out employees and investors didn't want to know you, now your reputation as an employer, and as a steward of careers and capital draws employees and investors to you.

The issue is exactly the same on the supply side of business. When you were unknown, no-one would give you credit or trade terms. Five, ten, fifteen years later there is no requirement for personal guarantees. Now your reputation and credibility is your credit-ability.

So how should we as business owners and directors think of reputation? I look at it like a bank account. Every good interaction you have with a stakeholder or they have with you, adds to the balance of credibility, every negative withdraws from it.

So far it's simple, but now comes the hard part, thinking, weighing, evaluating and judging - you need to think about all of your interactions - how good are your balances with others and their balances with you?

Over the years I've accumulated a series of aphorisms or rules that have helped me practice, rehearse and test the clarity of thought I am using when considering where a particular business or company is, and where it needs to go.

*You can't soar with the eagles when you run around with a bunch of turkeys!* Your reputation and credibility suffers when your clients and suppliers can't or don't deliver as promised. Choose your counterparts wisely. Their success will be *your* success, their failures *your* failures.

*Leopards never change their spots!* Once someone or a company has a reputation, good or bad, the trend continues until something or most often someone, or even the entire Board or management team is changed.

*In this life you only ever truly own two things: the consequences of your actions and your name, good or bad.* A short capital play business takes on average 7 - 9 years to come to fruition. Many NZ businesses are not intentional capital plays, but instead are lifestyle decisions. Therefore these business owners don't often realise the potential of their business until their life's priorities and values change and this often takes 20 + years. Some never get it. Think hard about your decisions and how they will be evaluated not next week, or next month, but in ten or fifteen years time.

*It's cheap, easy and exciting to get married, its tough, expensive and heart breaking to get divorced.* When you begin you need to have a plan and agreement about what the end could look like. Business is just like any other form of relationship involving property. Agreements, contracts and plans that address both success and the alternatives need to be worked through and agreed before you begin.

*If you don't know where you're going, any port will do!* Time spent in planning is rarely wasted. Really, really, really know where you're going, then you'll know 90% about how to get there.

*What is needed is a re-evaluation of values.* The problem with values based decisioning is that values change. Remember that leather jacket you really wanted when you were 25? Then you got it and now you probably wouldn't wear it even if you could fit it!  
The boat you needed to have but are too busy to use?  
The customer you had to have then but now have grown to hate?  
Build your business and dealings on principles, like fairness, honesty, integrity. They never change, but what we value does.

And now the most important aphorism: *Remember the golden rule - he who invests (lends) the gold, makes the rules!* This is absolutely the most important rule, when it comes to cash flow. When you sell something but don't get paid immediately for it, you are lending the gold. The borrower needs to follow your rules, they need your consent about not paying you, don't shy away from statutory demands, debt collectors or calling for the appointment of a liquidator. Conversely, when you can't pay on time communicate, with facts, with numbers and be honest. Pay everyone equally, prefer no-one especially not yourself.

Remember you build and preserve your reputation for good or ill everyday and you judge others reputations everyday - be careful how you go.

Leon Grandy