Have you ever had a friend or family member (Poor-ole cousin Eddie) that always needed to borrow a couple of bucks to get by? He just needed a few dollars to pay his insurance, rent, utilities, etc, and then he would be fine. But after every time you loaned him money he would just be back in the same boat in the very next month. The first couple of times you loaned him money you felt sorry for Poor-ole cousin Eddie, but after a while, your sympathy ran out. How would it be possible for him to get caught up if he was always borrowing money to pay someone else he owed money to? This would seem like a never ending cycle. The only answer is for him to either get a part time job to supplement his income or to cut back on some of his living expenses, even if it meant he had to change his lifestyle. Poor-ole cousin Eddie is addressing the symptoms and not the cause.

Fast forward to the current economy we find ourselves in. A common email or call that I am getting lately is from business owners that want to know if I can help them go to a bank to borrow money to pay existing debt or at least their current bills. Sounds familiar, right? By the way, banks aren’t big on lending money to pay existing debt, especially when a business is in trouble.

The issue now, however is that the person wanting to borrow the money is not traditionally Poor-ole cousin Eddie. In fact it is the successful member of the community that is used to lending support to others. Even if the circumstances leading to this situation is different from Poor-ole cousin Eddie’s situation, it will unfortunately play out in the very same fashion. Borrowing money to pay off debt can be a never-ending cycle. Refinancing, as a means to fix cash flow issues, may provide temporary relief, but this will not fix loss of revenue, increasing expenses, or generally poor cash flow management. There has to be a change in habit. There has to be a plan to increase revenue and/or decrease expenses with specific steps, not just borrowing money to pay someone who is screaming for their payment and then expecting everything else to just work itself out in the end, like it does in a thirty minute sit-com.

Let me offer an overly-simplistic example of what commonly occurs.

- Monthly Revenue = $10,000
- Monthly Expenses = $12,000
- Borrow = $2,000 (to make up the difference, because next month will be better, I just know it)
- Profit/Loss = $0 (hey, at least we it’s not negative)

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- Next Month’s Revenue = $10,000 (still $10,000 because we are doing the same things we did last month)
- Monthly Expenses = $12,200 (increase in expenses to pay on new debt)
- Profit/Loss = -$2,200 (and now we have new debt to account for and are still in the same old place)
So how do we break the cycle? It may be time to increase marketing efforts, focus on your existing customer base, cut fixed expenses, sit down and have a frank discussion with creditors about your situation, and most importantly write out in detail a plan of attack that includes a cash flow projection. Remember that you will want to address the cause of the cash flow shortage and not just the symptoms.