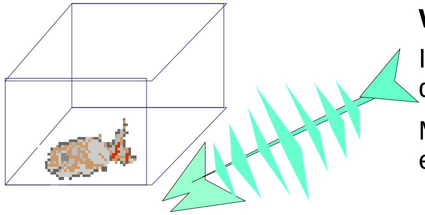
To present some basic financial principle, we like using the example of goldfish in a tank

let's talk about the gold fish

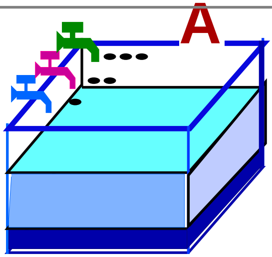


Without water, the fish dies.

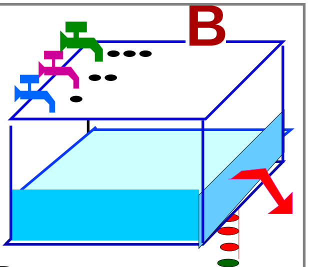
If a company does not respect a balloon payment date or a loan repayment schedule, it can die too.

Moreover, the tank is a good illustration of the essential rules of financial management.

3 faucets fill the aquarium

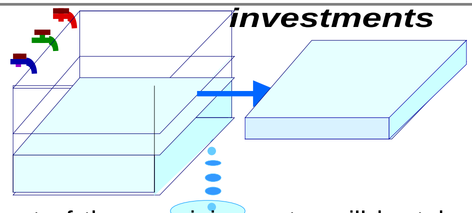


A ● The first one fills the company with co-owners money (owner's capital) either in terms of cash or equipment. ●●The second faucet brings money that has been borrowed from banks and other financial institutions (loans payable)●●●.The third one will be described later.



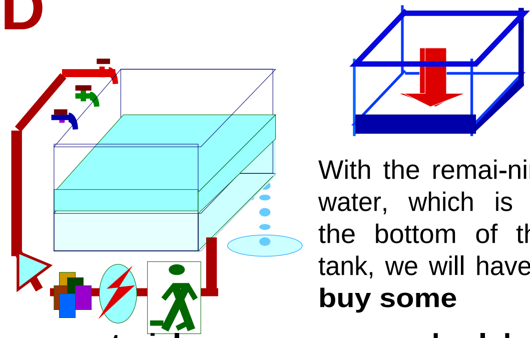
B The company aquarium is permeable. It leaks and looses water everyday as the company faces fixed and variable costs. The water level goes down.

C

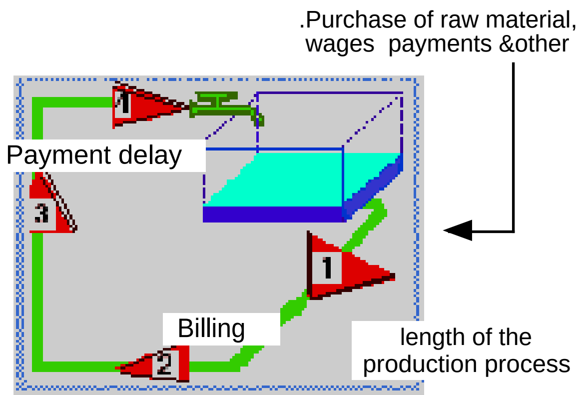


C A sensible part of the remaining water will be taken away and frozen. Investments will be made:materials, equipments, tools, and all means needed to produce. This water will probably never come back into the aquarium. We will have to control and manage the remaining water to avoid any waste and keep enough water on the side.If some additional water is needed to invest, an additional loan (coming from the second faucet) could be taken.

D

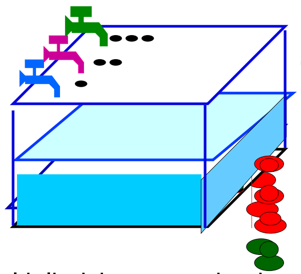


With the remai-ning water, which is at the bottom of the tank, we will have to **buy some raw materials, energy, and labor.** Otherwise, nothing will be produced! Then we'll be able to sell our product and be paid for it! Those payments will bring some money through our third faucet.However, we must notice the jet lag between the initial investment we have made in the company and the payments we receive from our production



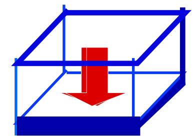
The money involved is generally considerable, so we cannot make any mistakes. Let's see the cash flow and volume issues. **Water will drop into our aquarium only when we will receive payment** (not when we bill the consumer). Only then we will determine the profit or margin made on the sale.

(2) b



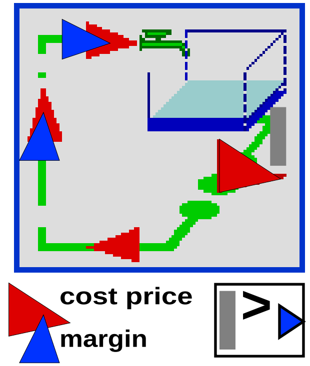
1. too many expenses

2. not enough cash flow
the golden fish will die if there `
is no water left in its tank!



3. not enough margin:

too a small margin, even if multiplied by many business cycles, could not lead to a very comfortable financial situation if it does not at least compensate the actual expenses or fixed costs. Believe it or not, it is often the case !



4. too many successes!

It appears strange but it has been proven that a company that is too successful too soon, often cannot manage its growth! The first faucet is limited by nature (associates and co-owners cannot bring new money in each time it would be necessary), the second (when available) leads to a loss of independence (as the lenders progressively take control of the board).

Sometimes, they even say NO, just to let the company go bankrupt in order to overtake it at a low price. In this case, the company saved by outside financial help will in fact die also. It explains why clever young CEOs often sell their businesses back after a few years and become employees or consultants of their own business!

IT IS FREQUENT AND EASY TO LOOSE CONTROL

Orwell precised that the power can be: • **Conquested by outsiders**: progressive outside investments or liabilities (specially when the owner's capital is low due to a strong and unexpected growth). OPA or alliances is another one. The marketing views are often forgotten as the capitalistic purchase of market shares is preferred to its long time conquest by normal but expensive ways. •• **Lost by management mistakes**. After the official death of the business, the company will be bought back by a more competent person: a good management is necessary to avoid losing a profitable business for some careless and useless mistakes ••• **Overthrown by an inside group of unsatisfied associates**. This internal resistance will brake the development of the company and can even challenge its future loss as the owner looses his willingness to manage.

Due to the extra administrative procedures, fiscal procedures and age, businessmen often become discouraged and exasperated. These men often call it quits. Decisions and changes are slow to take place and to be implemented. The companyis in danger of falling asleep and dying.

(Jean C. **Harrari** & Nadège **Woods**) © 10 - 2001 / ISBN I2-95-07777-4-0