CANADIAN BUSINESS

PROFITguide.com

# The Debt-Free Way to Grow Your Business

*Proof that bootstrapping is actually possible: Calgary's Splice Software funded a major expansion by hoarding cash for surprise expenses and staying focused on cost controls*

Mai Nguyen || April 25, 2016

Illustration: Nicholas Little

When Tara Kelly expanded her business operations to the U.S. in 2013, it didn't cause her to sink into debt. Instead, she dipped into her cash reserve—a sizable cushion that let her open a physical office in Chicago and employ a handful of health-insured full-time staff.

"We knew it was going to be tight, but we wanted to do it ourselves and not take on any debt," says Kelly, president and CEO of Splice Software, a Calgary-based provider of personalized human voice messages.

The impetus for Splice came when Kelly—who was then running her own wellness business—got a "terrible" robocall. She was so put off by the experience that she built a software system to improve the way she communicated with her clients. It worked so well that in 2006, she made it a stand-alone business. Today, Splice has more than $2 million in annual sales, employs 25 people and counts major retail and finance brands among its customers.

Splice has been growing since its launch; indeed, it has earned a spot on the PROFIT 500 Ranking of Canada's Fastest-Growing Companies for the past three years. Thanks to rigorous cash-flow practices, Kelly and her team ensure there's always at least six months' worth of operating expenses available so the company is not beholden to bankers. That cushion is put in a mostly liquid interest-bearing account, earmarked for growth plans and nasty surprises like deathly slow months. "If not a single soul [paid us], we have the buffer to cover it," says Kelly.

Cash flow is the lifeblood of any business—and also a major killer. According to a 2014 report by BDC, financial management is the biggest challenge facing 47% of small firms in Canada. Being cash-poor puts businesses at risk of missing their most basic obligations, such as payroll, rent and loan payments. And that makes it impossible to grow. Splice's rule of maintaining a six-month reserve is just one way it keeps its coffers full. The company's forward-thinking approach to cash-flow management makes it a rare beast: a company in growth mode whose ledger never dips into the red.

Ongoing, comprehensive communication forms the core of Splice's money-managing philosophy. The firm's accounting team reviews the ledger with upper management every week and updates its cash-flow projections every month. Considering entrepreneurs aren't always keen on number crunching—39% of small-business owners surveyed by Intuit Canada in 2015 failed a financial literacy quiz—this step might seem like a slog, but Kelly believes it's critical for managers to take part in meetings about money. She views it as a good chance not only to assess cuts that need to be made but also to see if there are any opportunities to invest money back in the company.

To keep cash coming in, Splice is no-nonsense about collecting the money it's owed. The firm requires a significant deposit on all pilot projects and requests payment within 30 days. It's an aggressive approach, and one that works best when a business can clearly quantify its value to customers, says Becky Reuber, a professor of strategic management at the University of Toronto's Rotman School of Management. "If you're a trailblazer in your industry, then people are going to want what you're selling and they'll pay up," she says. To this end, Splice keeps some impressive numbers handy during negotiations: For example, its voice messages reach 95% of all contacts and boast a 30% higher listenership than average.

On the accounts payable front, Splice employees frequently negotiate with suppliers to secure payment terms of at least 45 days—and they get bonuses when they can stretch the due date even further. This buys more time and maximizes the interest earned on the cash reserve. "You never want to be so aggressive that you hurt your vendors," explains Kelly. "But once you know how far they'll go, there's no reason money has to sit in their bank instead of yours."

Given Splice's shrewd attention to its balance sheet, it should come as no surprise that its reserve cash is only to be used in exceptional circumstances—and even then, Kelly is adamant about quickly replenishing the fund. For instance, the opening of Splice's Chicago location slashed the reserve in half, so Kelly promptly informed her employees they needed to drive up revenues and save wherever possible.

As a result, the company moved its servers to the Amazon Web Services cloud, which cut its infrastructure costs by 34%. It also published one less promotional white paper than usual, which saved roughly $5,000. The company even nixed regular deliveries of organic fruit—a popular perk—for a month; Kelly and her office managers picked up produce at a local farmers' market instead, saving the company hundreds of dollars. To keep everyone motivated, she used a thermometer chart to track progress and sent out updates every two weeks.

In about a year, the cash reserve was back up to its optimal level. Kelly is confident that staff engagement played a crucial role in this process. "Sometimes as the owner, you think you have to keep [money issues] to yourself or else your staff will be scared," she says. "But you can't scale as a team if you aren't transparent."

Promising a free trip to Mexico doesn't hurt, either. This year, every employee at Splice will get a seven-day vacation on the company dime if they meet not only their sales targets, but their budget targets, too. Such incentives actually go a long way toward making a company cash-rich, says Brad Cherniak, partner at Sapient Capital Partners, a business advisory firm based in Toronto, because they encourage everyone to think about the bottom line: “It’s like you’re giving everyone oars to row the boat. The more people rowing, the faster the boat goes.”

This is the ethos Kelly uses to circumvent the kind of irresponsible spending that ruins so many businesses in expansion mode. “When you grow, it’s easy to get away from that startup mentality because you have more money, but that can make you sloppy,” she says. “You have to live like you’re still starving.”

*This article is from the April 2016 issue of* Canadian Business.