What's on Your Balance Sheet?

In mid 2011, the FT estimated that there was $1,900 billion of cash on the balance sheets of US companies. That's a lot of money! Why are we accumulating so much cash? When interest rates are so low, how do you make your cash productive?

The accumulation of cash during the economic downturn of the last several years is understandable. After all, survival was the first order of business for many companies. Many of us learned hard lessons during the last downturn in 2001-02. My learning was that *cash is king*.

While there is still uncertainty about the worldwide economic environment, now is the time to think about what to do with your cash. It's earning very low interest and creating no value for you.

As often happens in stress situations, many of us over-react. In the economic downturn, we began hoarding the cash just in case. While there is certainly merit in increasing the amount of cash on hand for contingencies, there is also case to be made that some of that cash can be better used to grow your business and gain a competitive advantage.

Here are some suggestions on how to chart an effective and prudent course of action.

1. Calculate a reasonable amount of cash to operate effectively
2. Evaluate the options for using the remaining cash
3. Deploy the cash into one of these categories

   - Operational improvements to improve cost structure
   - New products and line extensions
   - Adjacent market opportunities
   - Acquisitions

All have different payback periods, rates of return and risks. Most companies have no shortage of investment opportunities.

To manage the risk of investing these uncertain times, identify and track leading indicators of business performance. If the indicators are positive, open the investment spigot a bit. If the indicators soften or turn negative, tighten the spigot a bit.

Uncertainty should not be a reason to limit investment to gain a competitive advantage.