



Line of Credit Can Smooth Out Cash Flow Extremes

By Mathew Miles, Commercial Loan Officer, Los Alamos National Bank

People who operate seasonal businesses often find that lines of credit make a lot more sense than traditional loans when dealing with the dramatic cash flows that are typical of such ventures. Steve and Tracy Kirkpatrick have operated in Albuquerque for 20 years as Gourmet Specialties Southwest, a Hickory Farms franchise. Before that, Steve was an employee of the Ohio-based company known for its specialty cheese, meats and other gourmet foods.

Each fall the Kirkpatricks activate their bank line of credit to purchase inventory and set up 17 seasonal kiosks and storefronts in New Mexico and West Texas. By the following January 15, they repay the line of credit in full.

The Kirkpatricks are able to manage their line of credit with maximum efficiency because they make projections by store and kiosk based on economic forecasts and data from previous years' sales. Thus they know how much to order, how much to pack and ship to specific stores and how much money they will need from their line of credit at any given time.

Unorthodox Borrowers

The Kirkpatricks are not typical of a bank's line of credit customers because they pay the loan back so quickly that the bank makes little profit on the interest charged between September and January. But many banks — especially local banks — are still happy to lend to people like the Kirkpatricks because they are a good credit risk and they create jobs for a core group of warehouse and office employees, besides a cadre of seasonal workers who pack gift baskets and make deliveries.

A line of credit is the maximum amount a bank agrees to loan a business. The bank only charges interest when the business taps into the line of credit, and interest is charged only on the outstanding balance. The borrower can make payments to the outstanding balance at any time, but he or she must make a minimum monthly payment that includes accumulated interest. Most lines of credit require that the loan be completely paid off for at least one month each year.

How They Do It

Besides careful management of their borrowed money, the Kirkpatricks save money by ordering inventory in bulk with other franchise owners. They further pare freight costs by sending

everything together and making drops at each franchise. Doing so means they need to order inventory early rather than ordering several times during the season as inventory drops. The line of credit gives them the cash to order early and in bulk.

Hickory Farms delivers inventory to the franchise's small, refrigerated Albuquerque warehouse, where employees hand-pack every gift box and basket before delivering the finished products to the stores and kiosks to sell through the season. Most of Gourmet Specialties Southwest's annual sales occur in November and December.

Even businesses with less predictability than this specialty store can use a line of credit to manage inventory levels, balance the erratic ebbs and flows of the business cycle and take advantage of sudden opportunities. For more information about a line of credit, visit <http://www.lanb.com/Business-Banking.aspx>.

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