The business headlines are full of stories about once promising companies that simply ran out of cash. Even those with the most innovative products or compelling service offerings share familiar histories: sudden success, followed by rapid expansion….and then ... disaster.

In my work as an adjunct professor and author, I try to caution students and executives about the risks of falling into an unsustainable growth trap. I draw upon insights gained while working as an executive of a multinational and for a leading strategy consulting firm, where I learned that a surprising number of those failures are not for lack of good ideas, loyal customers, or talented employees. They're because of ineffective cash management.

But there's hope. Successful companies don't sustain growth by chance. They do so by focusing on four fundamentals:

GFX: UNDERSTAND YOUR TRUE OPERATING COSTS
First, understand how operating costs change as your business grows. Rapid growth stresses margins as a firm tries to keep customers happy, offering services such as faster fulfillment, a broader product assortment or more generous payment terms. A theme restaurant opened in New York in the early 90s and became a trendy destination that amassed strong media attention. Initial sales were strong, and the company pursued an aggressive expansion plan, adding 50 outlets that generated more than $300 million in annual sales. Soon after going public though, the debt began piling up. Within three years, the chain declared bankruptcy, with losses totaling $359 million.

GFX: HOW MUCH WORKING CAPITAL DO YOU REALLY NEED?
Second, assess your actual working capital needs, carefully tracking what's really important on the balance sheet — like accounts receivable and inventory balances. These will give you a realistic gauge of your cash flow. Even when the cost of borrowing is low, under-estimating your day-to-day cash needs can lead to cash flow challenges, especially when your customers are late in paying.

GFX: DON'T OBSESS OVER WHAT THE INCOME STATEMENT IS TELLING YOU

Third, don't obsess over values on your income statement as the primary index of your firm's health. Keep in mind that bigger doesn't always mean better. To gauge true financial health, you can't just look at the top line. You need to look at three or more other metrics, such as cash-on-hand, accounts receivables, inventory levels, and new orders. The 90s theme restaurant became addicted to its popularity, opening bigger and more elaborate restaurants that recorded higher sales, but also required far more capital to operate. The healthiest companies are the most profitable ones with good cash flow generation, not necessarily those ringing up the most sales.

GFX: CASH IS KING

Fourth, take action based on those metrics, accepting that you may upset a small percentage of your customer base. That's not necessarily a bad thing. You may have started out offering generous payment terms, but a high accounts receivables balance may require you to reign them back in. You might lose a few customers as a result, but making every customer happy is not the objective.   Doing so just might mean a Chapter 11 filing. Remember: Cash is king. Don't give it away.

Financial health is about profit and cash generation, not market share. Keep a continual focus on effective cash management, and you'll be better-positioned for sustained, long-term growth.