

Guide to Cash Management for Small Businesses



Business Plus Bookkeeping

by: Elizabeth A. Lee

"It's all possible . . . when you have a plan."



We have all heard the saying “Cash is King”. Nothing is more vital to your small business than cash. Your cash flow is the lifeblood of your business so give it the care and attention that it deserves. Small businesses that can’t efficiently manage their cash flow are doomed to fail.

82% of businesses fail due to poor cash flow management/poor understanding of cash flow.

— Jessie Hagen of US Bank

Insufficient capital is one of the main reasons for small business failure, coupled with lack of experience, poor location, poor inventory management and over-investment in fixed assets.

— U.S. Small Business Association (SBA)



Understand Your Cash Flow

Cash flow is the money that flows in and out of your business. This is the money that you need in the short term to meet your obligations. The cash coming in and going out of your business is typically from three sources:

- **Operating Cash Flow:** Cash related to the day-to-day operations of your business, such as collecting from customers and paying your vendors.
- **Investing Cash Flow:** Cash related to the purchase or sale of plant, property and equipment or other long assets.
- **Financing Cash Flow:** Cash coming from or going to investors. This includes loans, revolving lines of credit and equity (stock).

Looking at all three sources and uses of cash will give you a good basis of analyzing the changes in your cash balances.



Profit and Cash Flow are Not the Same

Your business can be profitable and still not have adequate cash. Profits don't pay the bills – cash pays the bills. You can't just look at the amount of money coming in or out, you have to also look at the timing. If your business is run based on an invoicing system, you might not collect on those invoices before your loan payment is due. If there is a big lag between payments to suppliers/vendors, and buyers who aren't paying as quickly, you might end up with a cash flow problem.

One mistake is assuming that your bank balance and cash balance is the same thing. Rarely will they ever be the same. It is the path to failure if you attempt to manage your cash flow using your bank balance.



Monitor and Measure Your Cash Flow

You have to work at maintaining a positive cash flow. This starts with knowing your cash balance right now. You don't want to make day to day business decisions using inaccurate cash balances.

Start your cash flow forecast by taking the cash on hand at the beginning of the period and adding all the cash to be received from your various sources. How much cash are you going to get in and when. Next is having an accurate and detailed account of amounts and dates of upcoming cash outlays.

continued:



Monitor and Measure Your Cash Flow *continued:*

Prepare cash flow analysis and projections to make sure that you have enough cash each month to cover all your obligations for the following month. Then prepare your cash projections for the next two quarters and next year. Accurate projections can alert you to trouble well in advance and are the key to making wise business decisions.

It is vitally important to have an accurate cash balance and to keep your cash flow projections current. The best way to stay on top of your cash management is to hire a knowledgeable bookkeeper.



Improve Your Receivables

The four-letter word of cash flow management is “accounts receivable”. Your sales can be through the roof, but if that money is sitting in your accounts receivable balance it can cause a cash flow problem. There are ways to actively manage your receivables.

- Invoice promptly. Don’t wait until the end of the month to invoice. Bill as soon as the job is completed. Include the notation that “payment is expected upon invoice receipt”.
- Ask customers to make deposit payments at the time orders are taken. Not only does this bring money into the business immediately, it helps with the accuracy of your cash flow analysis and projections.
- Offer discounts to customers who pay their bills immediately.

continued:



Improve Your Receivables *continued:*

- Go after your receivables. Regularly review and identify customer accounts that are overdue. Make phone calls or send letters/email requesting payment. Some customers just need a reminder. Don't let these outstanding balances slide.
- Identify slow paying customers. Change your credit terms for these customers by asking for payment up front or cash on demand.
- Review your credit policies. The Small Business Association recommends getting a Dun & Bradstreet report on potential customers and asking them to fill out a credit application.
- Consider including late payment clauses when negotiating payment terms with your customers.



Manage Your Payables

One man's accounts receivable are another man's accounts payable. Just as you want your customers to pay promptly, your suppliers and vendors want payment as soon as possible.

- Pay bills only when they are due. Delay payment as long as you can while still meeting the terms of the sale.
- Take advantage of creditor payment terms – don't pay in 15 days if payment is due in 30.
- Be careful of vendor payment discounts. They can end up to be an expensive loan to the supplier or a way to reduce your costs. Analyze the numbers carefully.
- Use electronic funds to make your payments on the due date. You can retain the use of your funds until the very last day.



Plan Ahead for Cash Shortfalls

At some point you may find yourself in the predicament of not having enough cash to pay the bills. Plan ahead. The key is to be aware of the problem as early as possible. Bankers hate surprises and are wary of borrowers who need money now. Build a relationship with your banker. If possible, obtain a business line of credit before you need it. It can be a good safety net if cash flow problems should arise.



Cash Flow Management: Analyzing, Planning, Awareness

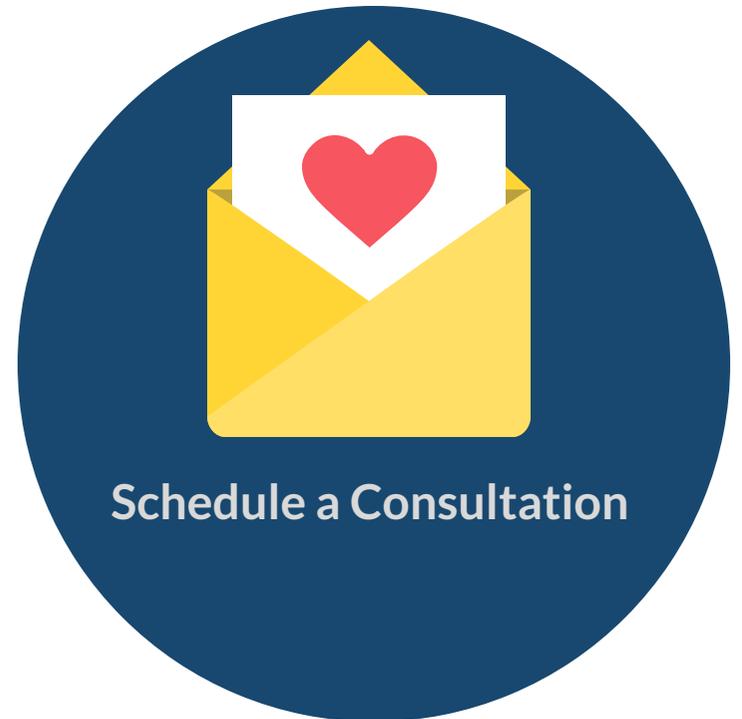
It is essential that you have a detailed cash forecast and use that information to budget your resources wisely. You want to grow your business and grow it as quickly as possible. With accurate cash planning you can achieve that growth in a way that is both smart and maintainable. You will have the cash flow awareness to make smart decisions to drive your business forward.

A qualified bookkeeper will guide you through the analysis and forecasting process. They can help you with a budget and maintain your financial accounts. Then you are able to focus your efforts where you can make the most difference in your business.

Contact Us

I'd love the opportunity to discuss your situation and how I can partner with you to grow your business. If you are interested, please use the link below to schedule a free consultation.

Elizabeth A. Lee



<https://www.businessplusbookkeeping.com>