

Show me the money” —Take control of the cash flow in your business!

As a business owner, you can identify with this line from the movie Jerry McGuire. Cash is a valuable asset, and controlling cash is a challenge for almost any company, large or small. With all the priorities of running a business, sometimes it is not easy to see the implications of negative cash flow until it is too late. It can happen even when the sales and profits are good and it is often a cause of business failure.

Payments to suppliers are often expected before customers pay their bills and if sales fall off, the cash flow slows down. Even if sales increase the cash flow may stop or become negative considering the impact of credit sales, seasonal fluctuations, build up of inventories—whatever the cause the message is simple: Run out of cash and the business is in trouble.

Cash flow projections are essential planning ingredients and an important aspect of any business plan. Bankers and other outside financing intermediaries will almost always look for a cash flow analysis in preference to any other financial statement, to see how the loan can be repaid.

How can you get cash flow under control?

Begin with understanding where the money is coming from and where it is going. Next look at the accounts receivable or your sales forecast to confirm or predict cash inflows, and your accounts payables to build a pattern of required future disbursements. Match the two. If there is a negative cash flow, the deficit needs to be covered from somewhere. There are two options. Spend less or get more (increase revenues).

Cash flows can be increased by adding new outside cash (usually a limited or one time option) or, more commonly, by offering a discount for cash payments or for accelerated payments on regular accounts receivable. Another option for businesses normally offering open account credit is to offer credit cards instead. Today, even many corporate customers, including many agencies of the federal government, utilize credit cards for purchases to eliminate much internal paper work for themselves. Accounts receivable can be reduced to free cash by evaluating the terms and payments habits on specific accounts and making arrangements to terms that will motivate your customer to pay immediately.

Cash outflows can often be reduced and/or delayed by negotiating or taking longer payment times.

What kind of cash flow management system do you need?

The most appropriate types of cash flow management tools varies with the kind of business you have. For example, if you have a service business, where you do not extend credit and you have just a few clients, then just about any system will work for you. Like the one built into your accounting system or you may want to set up a spreadsheet to see projections. If you sell many kinds of products, you need a good inventory management system to identify slow moving or end of season products. If you extend credit and have many small customers, you would benefit from an automated system to manage credit and collections, issue statements, and reminder letters. More sophisticated applications may include related capabilities in a CRM (customer relationship management) function. If you have all the above—many products, many customers to whom you grant credit—you will likely need a combination of cash flow management and some way to bring it all together, such as spreadsheet or overall cash flow projection calculator.

Although there are many reasons why small businesses fail, here are two of the top reasons.

Starting a business without adequate planning. Success is not guaranteed when you have found a market opportunity that capitalizes on your skills and experience. There are many other things to consider like getting the proper funding to start the business or support the business during the lean times, and sales and marketing strategies that work to find, keep and grow customers.

Resisting the urge to ask for help. Affordable help is available and realistically, you can't afford to be without it. You may not be an expert in every aspect of your business, but you can find someone to help.

Final note: A controlled cash flow can save the life of your business—and the future of the owners as well. Manage your business—don't let it manage you.

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