Cash Flow Management

You've probably heard the saying that "cash is king," and that truth applies whether you own a business or not. Most discussions of business and personal "financial planning" involve tomorrow's goals, but those goals may not be realized without attention to cash flow, today.

Management of available cash flow is a key in any kind of financial strategy. Ignore it, and you may inadvertently sabotage your efforts to grow your company or even build personal wealth.

Cash flow statements (CFS) are important for any business. They can reveal so much to the owner(s) and/or CFO, because as they track inflows and outflows, they bring expenditures to light. They denote your sources and uses of cash, per month and per year. Income statements and P&L statements may provide inadequate clues about that, even though they help you forecast cash flow trends.

Cash flow statements can tell you what P&L statements won't. Are you profitable, but cash poor? If your company is growing by leaps and bounds, that can happen. Are you personally taking too much cash out of the business? That may inadvertently transform your growth company into a lifestyle company. Are your receivables getting out of hand? Is inventory growth a concern? If you've arranged a loan, how much is your principal payment each month and to what degree is that eating up cash in your business? How much money are you spending on capital equipment?

A good CFS tracks your operating, investing, and financing activities. Hopefully, the sum of these activities results in a positive number at the bottom of the CFS. If not, the business may need to change.

In what ways can a small business improve cash flow management? There are some fairly simple ways to do it, and your CFS can typically identify the factors that may be sapping your cash flow. You may find that your suppliers or vendors are too costly; maybe you can negotiate (or even barter) with them. Like many companies, you may find your cash flow surges during some quarters or seasons of the year and wanes during others. Maybe you could take steps to improve it outside of the peak season or quarter.

What kind of recurring, predictable sales can your business generate? You might want to work on the art of continuity sales - turning your customers into something like subscribers to your services. Perhaps price points need adjusting. As for lingering receivables, swiftly preparing and delivering invoices tends to speed up cash collection. Another way to get clients to pay faster: offering a slight discount if they pay up, say, within a week (and/or a slight penalty to those who don't). Before you go to work for a client or customer, think about asking for some cash up front (if you don't do this already).

Relatively few small business owners look to home equity as a source of a business loan or a line of credit. Only 7%, in fact, according to the Federal Reserve. Meanwhile, only 6% explore a mortgage refinancing. But why are there so few? It could be that the repayment terms might be intimidating as well as the inherent risk of placing your home on the line. That said, it may be a suitable option for some seeking to start a small business.[1]

Be that as it may, there is a temptation for an owner of a new venture to get a high-limit business credit card. It might be better to shop for one with cash back possibilities or business rewards in mind. If your business somehow isn't set up to receive credit card payments, think about how the potential for added cash flow could render the processing fees utterly trivial.[1]

How can a household better its cash flow? One quick way to do it is to lessen or reduce your fixed expenses, specifically loan and rent payments. Another step is to impose a ceiling on your variable expenses (ranging from food to entertainment), and you may also save some money in separating some or all those expenses from credit card use. Refinancing - if you can do it - and downsizing can certainly help. There are many free cash flow statement tools online where you can track family inflows and outflows. (Your outflows may include items like long-term service contracts and installment payment plans.) Selling things you don't want could make you money in the short term; converting a hobby into an income source or business venture might help in the long term.

Better cash flow boosts your potential to reach your financial goals. A positive cash flow can contribute to investment, compounding, savings - all the good things that tend to happen when you pay yourself first.

Sincerely,

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[1] entrepreneur.com/article/336037