



Keep the Cash Flowing

By Marian Banker

Business owners beware: Over an extended time, negative cash flow can kill your business.

How can you make sure you'll be able to cover monthly expenses? If you anticipate each month's income and expenses, financial commitments can be made accordingly. The best way I've found to do that is to review your income and expenses at the end of each month. Document the products or services that produced the income and identify the expenses that were directly or indirectly related to producing that income. Question significant differences from previous months and expenses that don't support income production.

If you do that consistently each month, you'll have a baseline on which to project next month's and next year's income and expenses. Obviously, you'll take into consideration changes in marketing and introduction of new products or services and the related expenses. By starting with this baseline you are armed with information that will make a big difference in your ability to control cash flow. To maximize the benefit of your cash flow projections, compare actual results with estimates each month. Make any adjustments on a month to month basis, as needed. At the end of each year, review what you've learned about your business and use that information for future planning.

In addition to monitoring your monthly income and expense statement, here is additional information that may help you in cash planning.

1 - Know the timing of your receipts.

If you are not in a cash business, sales you invoice today may not be paid for 30 to 90 days. Meanwhile your expenses go on and you need cash available to pay them. Calculate your average outstanding days for receivables so you can plan to cover that time period with other cash sources. One option might be to add a cash-based product that augments your delayed payment products.

2 - Reduce the time from billing to receipt of payment (Accounts Receivable).

For openers, make sure the terms of sale are clearly understood and agreed to before delivery. Then bill as soon as possible after delivery. Immediately after the due date, initiate an aggressive collection procedure based on your clearly written policy. As an alternative you might look into accounts receivable financing (also called factoring), which is a way to borrow against the expected income and receive immediate cash.

3 - Use just-in-time inventory control.

If your business requires inventory for production or distribution, know the turnaround time from order to delivery for each supplier. Allow a margin for error, but make it your policy to keep your inventory storage time to a minimum. Stay in touch with marketplace trends so you don't get stuck with hot items past their time. Track the market life of each product.

4 - Know your business cycle and plan accordingly.

Most businesses have some type of cycle. By reviewing your monthly financial statements, especially over several years, you will see the peaks and valleys. By knowing that February will be a slow month, you can either look for ways to reduce expenses or seek new or increased revenue sources during that time period. The key is to know in advance what to expect so you can take the appropriate action.

5 - Prioritize available cash usage.

When cash is at a premium in your business, cover your current liabilities first, then add to your reserves, even if it's only a small amount. If you take a salary from your business it will be included in current expenses. If you take a regular personal withdrawal, be sure you include that amount in your projections so you won't have to withhold payment to yourself just to cover your cash needs.

6 - Use debt as a last resort.

Repayment of debt of any kind constitutes a drain on cash flow. Any infusion of cash from outside the operation of the business always includes implicit repayment. Your ability to repay will be dependent on the purpose for which you borrowed the money and whether or not it creates income or buys you some time to collect other income.

Cash is the lifeblood of your business. It deserves your serious respect. Guard it, preserve it, save it and make sure it keeps flowing.

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Tip: Quick Cash

As a short term resolution to a cash crunch, here are a few actions that can bring a quick infusion of cash. Not all will be appropriate for you, but they may give you some good ideas.

- 1 - Borrow against a pre-established credit line.
- 2 - Negotiate longer credit terms with suppliers.
- 3 - Arrange a longer payment period on accounts payable.
- 4 - Hold a sale to move inventory.
- 5 - Sell unused assets.
- 6 - Rent space in your facility or rent your product.
- 7 - Lend the business money yourself or borrow from willing relatives.
- 8 - Factor accounts receivable if you haven't already done so.

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