

Catch Your Cash

If it feels like your cash only flows in one direction--out--then cash-management basics can help.

Think fast—name the three things most important to the success of your business.

If cash management didn't make your list, you're not alone. Most entrepreneurs think a lot more about sales and marketing than the specifics of managing cash.

And really, who could blame them? The term "cash management" is broadly enough defined so as to be perpetually misunderstood. "People have a hard time describing it," says Joe Scharfenberger, head of small-business financial services for Chase Regional Banking in New York City. "But cash management is nothing more than cash in, cash accumulated and cash out."

Sounds simple enough. Yet many business owners watch their would-be-profitable companies teeter on the brink because they don't have a handle on what's coming in and what's going out of their corporate coffers. "Maybe, because these things are basic, [business owners] assume they're being done; but there are always surprises," says Mark Zorko, CFO partner with professional services firm Tatum Partners LLP in Chicago.

To help minimize surprises, assume no cash issue is too basic. Here's a checklist to help keep you on track:

1. Know where you are and where you're going. All good cash management begins with a thorough assessment of your business's current cash position and the development of a forecast based on that, says Jonathan Gassman, a partner with accounting firm Gassman & Golodny LLP in New York City. This should tell you whether receivables are being collected quickly enough to pay vendors on time and whether you're optimizing your float.

2. Analyze accounts receivable and payable. If a cash position analysis turns up more cash out than cash in, the best place to start is receivables. Zorko looks at receivables first when he comes into a company to help with financial troubles. Usually, he finds customers aren't paying for reasons the entrepreneur had no knowledge of. Says Zorko, "It leads to a discussion about product quality, service delivery or other things not being done properly."

A glance at receivables may also remind you that you've been shy about collecting, says Ira Davidson, director of the Small Business Development Center at Pace University in New York City. Davidson counseled one business owner who showed him nine months' worth of uncollected receivables. "He was afraid to collect because they might not pay and he'd lose customers," says Davidson. Collecting on time and sticking to credit policies are critical to keeping the money flowing in.

Accounts payable analysis will tell you whether you're paying vendors too early to capitalize on float. Zorko recommends asking, "Are we taking advantage of payment discounts? Are we paying too soon?"

3. Use your bank's tools. With an array of cash management tools available, you never have to be in the dark again about your cash situation. "The biggest mistake small-business owners make is using only a checking account to manage cash," says Scharfenberger. He advises business owners to, at minimum, use an interest-bearing money market account to park excess cash.

Gassman and Zorko both recommend limiting the number of accounts at different banks. By consolidating accounts with one financial institution, you can also negotiate more favorable loan terms.

4. Get thee a good CFO. The first step on the way out of denial is admitting that you'd much rather be out selling than crunching numbers—and then making sure you have the right person to do that for you. Most entrepreneurs have accountants, who tend to focus solely on tax minimization, or bookkeepers, who may not have adequate training to handle more sophisticated corporate finance. Says Davidson, "If [business owners] don't have a financial VP, they really don't know the implications of what their cash on hand means to their business at large."

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