

How to Better Manage Your Cash Flow

These four steps will help you keep track of the money coming in and out of your growing company.

Cash is king when it comes to the financial management of a growing company. The lag between the time you have to pay your suppliers and employees and the time you collect from your customers is the problem, and the solution is cash flow management. At its simplest, cash flow management means delaying outlays of cash as long as possible while encouraging anyone who owes you money to pay it as rapidly as possible.

Measuring Cash Flow

Prepare cash flow projections for next year, next quarter and, if you're on shaky ground, next week. An accurate cash flow projection can alert you to trouble well before it strikes.

Understand that cash flow plans are not glimpses into the future. They're educated guesses that balance a number of factors, including your customers' payment histories, your own thoroughness at identifying upcoming expenditures, and your vendors' patience. Watch out for assuming without justification that receivables will continue coming in at the same rate they have recently, that payables can be extended as far as they have in the past, that you have included expenses such as capital improvements, loan interest and principal payments, and that you have accounted for seasonal sales fluctuations.

Start your cash flow projection by adding cash on hand at the beginning of the period with other cash to be received from various sources. In the process, you will wind up gathering information from salespeople, service representatives, collections, credit workers and your finance department. In all cases, you'll be asking the same question: How much cash in the form of customer payments, interest earnings, service fees, partial collections of bad debts, and other sources are we going to get in, and when?

The second part of making accurate cash flow projections is detailed knowledge of amounts and dates of upcoming cash outlays. That means not only knowing when each penny will be spent, but on what. Have a line item on your projection for every significant outlay, including rent, inventory (when purchased for cash), salaries and wages, sales and other taxes withheld or payable, benefits paid, equipment purchased for cash, professional fees, utilities, office supplies, debt payments, advertising, vehicle and equipment maintenance and fuel, and cash dividends.

"As difficult as it is for a business owner to prepare projections, it's one of the most important things one can do," says accountant Steve Mayer. "Projections rank next to business plans and mission statements among things a business must do to plan for the future."

Improving Receivables

If you got paid for sales the instant you made them, you would never have a cash flow problem. Unfortunately, that doesn't happen, but you can still improve your cash flow by managing your receivables. The basic idea is to improve the speed with which you turn materials and supplies into products, inventory into receivables, and receivables into cash. Here are specific techniques for doing this:

- Offer discounts to customers who pay their bills rapidly.
- Ask customers to make deposit payments at the time orders are taken.
- Require credit checks on all new noncash customers.
- Get rid of old, outdated inventory for whatever you can get.
- Issue invoices promptly and follow up immediately if payments are slow in coming.
- Track accounts receivable to identify and avoid slow-paying customers. Instituting a policy of cash on delivery (c.o.d.) is an alternative to refusing to do business with slow-paying customers.

Managing Payables

Top-line sales growth can conceal a lot of problems—sometimes too well. When you are managing a growing company, you have to watch expenses carefully. Don't be lulled into complacency by simply expanding sales. Any time and any place you see expenses growing faster than sales, examine costs carefully to find places to cut or control them. Here are some more tips for using cash wisely:

- Take full advantage of creditor payment terms. If a payment is due in 30 days, don't pay it in 15 days.
- Use electronic funds transfer to make payments on the last day they are due. You will remain current with suppliers while retaining use of your funds as long as possible.
- Communicate with your suppliers so they know your financial situation. If you ever need to delay a payment, you'll need their trust and understanding.
- Carefully consider vendors' offers of discounts for earlier payments. These can amount to expensive loans to your suppliers, or they may provide you with a change to reduce overall costs. The devil is in the details.
- Don't always focus on the lowest price when choosing suppliers. Sometimes more flexible payment terms can improve your cash flow more than a bargain-basement price.

Surviving Shortfalls

Sooner or later, you will foresee or find yourself in a situation where you lack the cash to

pay your bills. This doesn't mean you're a failure as a businessperson—you're a normal entrepreneur who can't perfectly predict the future. And there are normal, everyday business practices that can help you manage the shortfall.

The key to managing cash shortfalls is to become aware of the problem as early and as accurately as possible. Banks are wary of borrowers who have to have money today. They'd much prefer lending to you before you need it, preferably months before. When the reason you are caught short is that you failed to plan, a banker is not going to be very interested in helping you out.

If you assume from the beginning that you will someday be short on cash, you can arrange for a line of credit at your bank. This allows you to borrow money up to a preset limit any time you need it. Since it's far easier to borrow when you don't need it, arranging a credit line before you are short is vital.

If bankers won't help, turn next to your suppliers. These people are more interested in keeping you going than a banker, and they probably know more about your business. You can often get extended terms from suppliers that amount to a hefty, low-cost loan just by asking. That's especially true if you've been a good customer in the past and kept them informed about your financial situation.

Consider using factors. These are financial service businesses that can pay you today for receivables you may not otherwise be able to collect on for weeks or months. You'll receive as much as 15 percent less than you would otherwise, since factors demand a discount, but you'll eliminate the hassle of collecting and be able to fund current operations without borrowing.

Ask your best customers to accelerate payments. Explain the situation and, if necessary, offer a discount of a percentage point or two off the bill. You should also go after your worst customers—those whose invoices are more than 90 days past due. Offer them a steeper discount if they pay today.

You may be able to raise cash by selling and leasing back assets such as machinery, equipment, computers, phone systems and even office furniture. Leasing companies may be willing to perform the transactions. It's not cheap, however, and you could lose your assets if you miss lease payments.

Choose the bills you'll pay carefully. Don't just pay the smallest ones and let the rest slide. Make payroll first—unpaid employees will soon be ex-employees. Pay crucial suppliers next. Ask the rest if you can skip a payment or make a partial payment.

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