



Managing Business Cash Flow

To be successful, every business must effectively manage cash flow. The primary purpose of cash flow management is to know when expenses will exceed income and have a plan for dealing with inevitable cash flow shortfalls.

There are four main steps every business should take to manage cash flow: (1) track and project cash flow on a monthly basis; (2) constantly work to increase income; (3) constantly work to reduce expenses and (4) have a plan to deal with cash flow shortages.

Tracking Cash Flow - Attached to this article is an example Excel spreadsheet that can serve as the basis for a monthly analysis and projection of business cash flow. Here are some tips for how to use this spreadsheet:

- Starting Balance – This is the total amount of money in all business bank accounts at the end of each month.
- Income – This is the total amount of money received by the business from all sources during the month.
- Expense – This is the total amount of money that was spent on the business during the month.
- Shortfalls – Red numbers are negative and indicate a shortfall.
- Reserve – During months when there is excess cash flow, it is a good idea to set some money aside for use during a month when there is a shortfall.
- Projections – While taking into consideration monthly fluctuations of income and expense, it is a good idea to project cash flow at least 3 months in advance.

Managing Receivables – Every business should constantly be looking for ways to increase income by the prompt collection of receivables. Here are some tips for some ways to do this:

- Evaluate Credit Risk – Not every customer is a good credit risk. Develop a policy for which customers justify a Net 30 day account and which ones should be COD.
- Billing Practices – Use an accounting program to manage the billing process. Create a relationship with AP representatives at each of your customers. Send invoices promptly and at the same time each month. Follow up with a call or an email to assure nothing is preventing payment.



- Collection Procedure – Add service suspension, late fee and attorneys fees provisions to all quotes, purchase orders and invoices. Monitor receivables and contact past due accounts whenever an invoice payment is more than 5 days late. Confirm all phone calls with an email. Take collection action for invoices more than 90 days past due.
- Early Payment Discounts – Offer large accounts a discount for early payment of invoices.
- Service Suspension – Suspend service to accounts that consistently pay their invoices more than 30 days past the due date.
- Manage Inventory – Sell off outdated inventory to assure maximum value of your products.

Managing Payables – To go hand-in-hand with the management of accounts receivable, here are some tips for managing payables:

- Track Payables – To avoid payments that are either early or late, on a regular basis use your accounting system to track the aging of accounts payable.
- Payment Terms – Develop a close relationship with key vendors. Take full advantage of vendor payment terms. Ask for payment extensions when necessary. Always follow through with payment promises made with vendors.
- Take Discounts – Whenever possible, take discounts for early payment.
- Audit Vendor Relationships – No less than quarterly, check with vendors to assure that costs or payment terms cannot be better. Regularly compare prices and payment terms with competitive vendors.
- Maintain Equipment – Monthly payables can be lowered by maintaining existing equipment rather than buying or leasing new equipment.
- Renegotiate Loans – Make certain the interest rate on loans or lines of credit are competitive and renegotiate rates that are above market. Extend or renegotiate payment terms on loans with heavy payments.

Managing Shortfalls – For most businesses, a cash flow shortage is inevitable. Here are some ways to manage these shortfalls:

- Reserve Account – If you have been able to fund your Reserve Account, a shortfall is the time to pull that money out.
- Line of Credit – Although getting money from banks has been difficult since the economic meltdown, it may be possible to set up a Line of Credit you can draw against when a shortfall occurs.



- Extended Payment Terms – Sometimes when a business faces a cash crunch, it is possible to ask vendors for an extension of payment terms.
- Factoring of AR – One of the quickest ways to handle a cash flow shortfall is through the factoring of accounts receivable, where the factoring company purchases one or more of your invoices and provides up to 80% of their face value.
- Friends and Family – When all else fails, it may be possible to get a short-term business loan from friends or family. Key to this process is knowing who to approach and what they will want.

Summary – The effective management of cash flow is essential for the success of any business. Through the use of a simple cash flow analysis spreadsheet and by implementing procedures that will maximize income from accounts receivable, control payables and include a plan for dealing with shortfalls, successful cash flow management can be part of regular business practices.

Since 1988, Diversified Business Resources, Inc. has been helping small to medium-sized businesses manage cash flow through the factoring of accounts receivable. To learn more about how this quick and easy form of alternative business funding can solve your business cash flow issues, please contact Ben Gage at (76) 738-1400 or ben@dbrfactors.com.