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Cash is King

8 Tips for Better Cash Management

We all know how important it is to have cash on hand. Another fact is that a growing business requires increased cash to keep growing. As a small business owner, having cash throughout the month can be a tricky matter. Some may feel overwhelmed by not being in better control of their cash position. Making sure you have enough cash for the essentials like payroll is the key to staying in business. Here are a few tips that may help.

Know Your Cash Position Every Day

Modern technology allows us to view our operating accounts online. This is especially important with so many transactions that occur electronically and automatically. It is easy to have transactions occur and deplete your cash temporarily without warning. Looking at your account daily can keep you aware of your cash position so you can take the steps necessary to avoid a nasty surprise.

Create a Cash Flow Calendar

You probably know a lot more about your cash flow than you think. It is important to be aware of outstanding receivables or contract payments you can expect to receive over a manageable period of time, whether weekly or monthly. Your outflows are even more predictable because so many of the payments we make are repetitive. As an accountant, I freely admit that the typical profit & loss or balance sheet statements are not very helpful at cash flow prediction; accounting software has its limitations.

You can make a very simple cash flow calendar or make it very complex. I suggest using a spreadsheet to make it more automated.

Using major categories helps you get an overall view of your business one day at a time or even a week or month at a time. This exercise can assist you in the timing of your payments to coincide with your receipt of the inflows. It also can show you trouble spots ahead so you have time to prevent them. Moving numbers around in the calendar as the month goes by helps you make better informed cash decisions.

Keep your cash flow calendars to have a historical record of your business activity. It can be your model to building next month's and next year's calendar.



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Tie Your Operating Account to a Business Line of Credit

A business line of credit (LOC) can be used to even out your cash flow. Many business owners are reluctant to apply for this tool because they want to avoid paying interest. However, if the LOC is tied to the operating account with a "sweep" feature, then the interest is only on the balance you use each day. This type of account is designed to sweep back and forth as you need it from your operating account to the LOC. Most banks offer this type of account.

Negotiate More Favorable Terms with Vendors

Sometimes this can be a great tool when your customer payments are not as timely as you would like. Adding a few days to your terms with your vendors can even out some of the bumps in the cash flow calendar. You may find that a new vendor is likely to give better terms up front just to get your business. Use of a business credit card can also be helpful to give yourself more time before you have to pay.

Give Customers an Incentive to Pay Earlier

Giving a discount can sometimes give customers the incentive they need to pay earlier. You have to weigh the benefits of earlier cash with the fact that it does mean less cash. Staying in touch with these customers when you are in a crunch can help keep your relationship one that is more of a partnership than a typical arm's length one. Along the same lines, consider accepting credit cards. You receive cash sooner, but at a discounted price.

Carefully Examine Expenses

Being involved in the cash decision-making process is essential. Looking at bills and reports can help you stay aware of where the money goes. I once knew a small business owner who asked me, "Do you need any money? Just send my bookkeeper a bill!" Your bookkeeper does not have the motivation that you do to maintain your cash position. Implementing an approval for payment process and being aware of when payments are sent out can avoid this situation.

Make sure bills are paid close to on time, but not ahead of time. Make sure your bills are entered into the software timely to be considered in the reports that help determine your coming cash flow needs.

Sign Up for Electronic Payments

Sometimes when money is tight and you finally get a big payment in, you can get credit today for paying bills directly online. This is a great way to pay credit cards, utilities, taxes and other bills that give online access. You might not need to do this every month, but when you need to, it is great to have this option available.

Consider New Revenue Sources

If you find you are always running short of cash, it is good to look at where you can add new products that increase your cash flow or cut products or other expenses that are eating up your available cash. Consider offering a service for an annual or monthly retainer payable up front.

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