

Guidance

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How to Manage Your Cash

Submitted by Walid L Petiri on Thu, 10/24/2013 - 3:00pm

Why do so many businesses fail? Bad cash flow management is a big reason. Sure, maybe your business plan is foolish or your financing is inadequate. But if your company is on solid ground, nothing can hurt you more than a slow hemorrhage of cash.

Everyone hears about the boons that good cash management can bring. Remarkably, so many businesses fail to properly implement it. Ignore cash management, and you inadvertently sabotage your efforts to grow your company and build personal wealth.

A cash flow statement is a vital gauge for your business. The profit and loss statement can mislead you, as it may show a (questionable) profit thanks to accounting abstractions like amortization and depreciation. But a cash flow statement brings to light your sources and uses of cash, per month and per year. Are you profitable, but cash-poor? If your company is growing rapidly, that can happen.

Are you personally taking too much cash out of the business? Are your receivables getting out of hand? Is inventory growth a concern? If you took out a loan, how much is your principal payment each month and how is that burning through your business' cash? How much do you spend on capital equipment?

Tips for a small business. Tracking your cash flow likely reveals that it is seasonal. Retail, for instance, does best during the yearend holidays. One strategy to keep cash flow strong: Check your prices. If you are undercharging, raise prices if you can. Some businesses record ever increasing sales figures and yet their cash situation is critical from month to month. It's possible there is not enough profit built into the products, and the sales only cover the costs of getting the product out.

What kind of recurring, predictable sales can your business generate? One idea is to focus on the art of continuity sales – turning your customers

SMART ADVICE



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By Larry Light, Editor-in-Chief

At AdviceIQ, we believe that everyone should have a financial advisor – a good one, vetted through our system to ensure that he or she has a clean background. Hiring an experienced, capable advisor gives you the services of someone who knows the landscape of investing and other necessary financial matters, such as the amount and type of insurance you should have, and how you should set up your estate.

into something like subscribers to your services by charging them periodically (monthly, quarterly, annually). Get cash first and give credit last. Don't extend credit to anyone unless necessary. Offer discounts if they pay up promptly.

Then there's the question of getting customers to pay. Lingering receivables are a blight. Swiftly preparing and delivering invoices tends to speed up cash collection. Plus:

1. Review your immediate sales program to decide your real sales potential within the next month, three months or six months.
2. Prepare a list of your debtors (that is, people who owe you money) and carry out urgent action to collect. If payment is still not forthcoming, then follow this up with a demand in writing. If they still don't pay, consider the services of debt collectors. The threat of a reduced credit rating usually moves debtors to pay. It is better to lose the business of a bad debtor than to continually spend time and resources chasing money owed to you.
3. Prepare a list of your creditors (that is, firms to whom you owe money) and make arrangements (if possible) to get extended credit on money you owe. Instead of getting 30-day terms, see if that can be extended to 60 or 90 days. Remember, this is interest free money and having the extra time lets you collect all your money before you pay your bills.
4. Consider leasing assets like vehicles or equipment, instead of paying cash or buying them. Even though leasing may cost you a little bit in interest, it can improve your cash flow and allow you to put that cash to better use.
5. Look for unused or little-used assets, sell them and raise cash.
6. Do not take on too heavy a loan commitment. Debt servicing can greatly diminish your cash situation.
7. Build a cash reserve to make payments if you really have to, while waiting for business to improve.

The [Small Business Association](#) states that only about 10% of entrepreneurs draw entirely from their credit cards for startup capital. That's usually a bad idea. Interest rates are enormous, in the high teens or more. Of course, cards make sense for more limited use, like everyday office expenses.

When selecting a credit card for your business, shop for one with cash-back possibilities or business rewards. From the customer standpoint, make sure your business is set up to receive credit card payments. Yes, there are processing fees to card issuers, but the increase in revenue – it's easier for customers to pay with a card – renders the fees trivial.

Your personal cash flow. First off, tackle loan and rent payments. Put a ceiling on your variable expenses (such as food and entertainment), and

try to avoid reliance on credit cards. Refinance your debt, if you can. Online tools help you track inflows and outflows. Selling unwanted items is another way to help cash. In addition, make sure to carry a cash reserve that can carry you for six months at least, should all else fail.

Realize that without good cash management, your ambitious financial goals are a reach. Unless you realistically expect a huge windfall (which places you in the hope business) you need a positive cash flow to have the savings to invest and build wealth.

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