

# A Beginner's Guide to Cash-Flow Management for Small Businesses

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Cash flow—the movement of money in and out of your business—is the key to business success or failure. In fact, cash-flow problems are the main reason most businesses fail. Put simply, when you don't have enough cash coming in to pay the bills, you've got trouble.

That's why proper cash-flow management for your small business is essential to your success. "If you're a small business owner, it's vital to understand your current cash position, and to know how to keep cash flowing so the heart of your business keeps beating," says Ben Richmond, U.S. country manager for **Xero**, a cloud-based accounting software provider.

To keep the cash flowing, heed this advice from the pros.



## 1. Create a Cash-Flow Forecast

Forecast all projected income along with when you expect to receive it. Comparing that to projected fixed and other expenses will help identify periods where there's potential to spend more than you make. That, in turn, allows you to plan for those gaps.

"I like to think of it like driving a car," explains Jody Grunden, CEO and co-founder of **Summit CPA Group**. "Historically, you look back through the rearview mirror with your financial reports. With forecasting, however, you're looking forward, through the windshield."

Make monitoring your cash-flow statement part of your daily routine. "It doesn't need to be a major part of your day—just a check-in to make sure you know how you're doing," says Matthew Burke, editorial director at **Complete Guide to Archery**.

## 2. Collect Money Owed More Quickly Than You Pay Your Bills

Rather than wait until the first of the month to bill a client, invoice the job as soon as it's done. Then monitor the payment to make sure it arrives according to contract terms. If it doesn't, take action.

"It's the squeaky wheel that gets the oil, so make sure you take an active role in approaching businesses that owe you money," says Richmond. "Be firm, but fair."

Better yet, for project work, don't staff up or start the job until you receive a deposit on. "This might be difficult advice to hear for some because there are businesses that have bent backward to accommodate client requests, but it's imperative to the survival of small businesses," says Geoff McQueen, co-founder and CEO of **Accelo**, a service operations software provider.

Make it easy to get paid quickly, too, by accepting digital payments with **PayPal**, **Stripe**, and **Venmo**.

Conversely, don't pay bills before they're due. "If you're paying a supplier with 90-day terms before one with 30-day terms, you're losing out on 60 additional days of generating cash to pay that bill," says Justin Halldorson, managing partner of **Shift Capital**.

## 3. Continually Cut Expenses

Think lean—not just during tough times, but always. Start by examining all recurring charges to see where you can save. Do you really need all the bells and whistles offered by your email service provider, or can you downgrade to a less expensive plan?

Marketing expert **Bruce Harpham** has seen the impact of this simple step firsthand. "When I canceled subscriptions to two software products that I was no longer using, it contributed about \$200 in immediate savings," he says.

Don't cut costs in customer service, though. "Keeping your current customers happy is much cheaper than trying to acquire new ones," Halldorson says.

## 4. Get a Line of Credit Before You Need It

As many small businesses discovered during the COVID-19 pandemic when applying for a **Paycheck Protection Program** loan, a strong banking relationship can make a significant difference. One way to secure this is by applying for a line of credit before you need it.

"A line of credit preserves cash flow in lean times, helping you not only survive but thrive in downturns. In addition, strong business credit can augment your cash flow over time through lower borrowing costs," says Brian Martucci, finance editor at **MoneyCrashers.com**.

With the right bookkeeping system in place and professional advice as needed, you'll keep the heart of your business beating with cash.

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