Cash flow woes BE GONE!

BY RICHARD FLYNN

Many small business owners or managers tend to gauge the health and success of their business on things such as profit margins, sales growth or strong customer loyalty. While these are critical metrics, the reality for any business is that balanced cash flow is an equally important indicator of well-being because cash pays the monthly bills, covers the payroll and can be invested back into the company to support expansion.

In fact, more than 60 percent of business owners are “very concerned” about having cash available to pay bills over the next six months, according to the American Express OPEN Small Business Monitor, a semi-annual survey of business owners. To avoid the perils of uneven cash flow, small business owners simply need to keep these 10 basics in mind to measure, monitor and manage the cash that moves in and out of their businesses.

1. Know where you stand. First, know exactly where you stand with a cash flow statement. Pouring over an income statement alone won’t shed light on a company’s cash flow situation. That’s because income statements only reveal sales, expenses and profits at a given moment. A cash flow statement, however, shows the movement of money in and out of a business over a specific period of time, whether a week, month, quarter or year.

A cash flow statement will show not only what cash is left at the end
Although the recession may be reaching its final days, industrial engineers must continue to ride out the rough economic waters looking for ways to stay afloat. The survival plan for these recent troubles lies in their own hands and relies heavily on efficiently monitoring cash flow. Reserving cash is an important step for industrial engineering professionals to take in preparation for the signs of economic recovery.
of the month but also the amount that entered and left the business. In other words, it will make it easy to see whether you’re adding to your business’ reserves over time or slowly eroding them. It’s important to see this before reserves get low; otherwise, a business with strong sales but lagging receivables can find itself in a bind when it comes to covering unexpected expenses or if the business encounters slow times.

If tracking cash flow seems daunting, then take the time to speak with a savvy adviser, your CPA or a financial consultant because there’s no replacing the knowledge you’ll gain from these basic figures and calculations. Consider the cost involved as an important investment in your business.

2. Plan not to fail. It’s certainly important to keep up on the economic and market realities around you, but mere knowledge isn’t necessarily enough to help your business. The real difference in who weathers the storm well and who doesn’t often boils down to one factor: planning. Although no one sets out to fail, business owners sometimes don’t have explicit enough plans to help them avoid failure. The trick is not only to recognize your challenges, but to create a plan by putting challenges — and potential solutions — in writing.

Take the time to write down 10 specific challenges that your business faces, along with some possible solutions that could help you overcome them. The more specific you can be, the better. No doubt some of your challenges will be obvious, but others may require devising some what-if scenarios to pinpoint potential weaknesses in your business. For example, what if the vendor you rely on exclusively for a specific type of supplies or equipment dramatically raises prices or, worse yet, goes out of business? What if you lose the lease on your office space?

The relatively short amount of time that it will take to ponder your biggest challenges and begin to brainstorm solutions could make all the difference between pre-empting crisis and falling prey to it. Because while you may not come up with satisfying solutions to all of your challenges right away, you will at least be focused on finding ways to strengthen your business instead of being distracted by lesser concerns.

3. Reassess budgets and major expenses. For any business owner thinking about how to face or pre-empt challenges, one subject is sure to come up: cash. As the saying goes, cash is king, and particularly in a slower economy when business can be uneven, profit margins are potentially slimmer and payments are slower to arrive.

Take a look at how successfully you predict expenses and assess whether you’re allowing enough leeway to cover the unexpected. While running a little over budget in one area may not be a crisis, doing so consistently in several areas can quickly drain cash from a business. Few things go as planned, so allow for a little extra time and money by budgeting pessimistically. A little padding goes a long way in helping to accommodate the unexpected turns the economy may take.

With realistic budgets in place, you also should consider cutting back on recurring expenses wherever possible. Look at your business relationships and obligations and question whether they may hold untapped opportunity for savings. There may, for example, be room to renegotiate a variety of contracts and agreements, such as leases or business services. After all, if the economy is causing you to tighten your belt, then chances are you’re not the only one willing to make some sacrifices.

One possibility is to try to renegotiate payment terms with key vendors. Many vendors will extend to valued customers trade terms that reward early payment with a small discount. You may also be able to negotiate slightly longer payment terms that will allow you to hold on to cash a little longer. The better your credit and the better your relationship with a vendor, the more likely you are to receive these benefits.

4. Go to the source. Understanding how cash flow problems occur is your best defense. Cash flow problems can arise from either end of the business cycle — spending or receiving. And, of course, both courses can present problems in combination that can rapidly put a business in financial crisis.

Looking at the spending side of the equation, consider periods of growth, for example, when a company needs to invest in inventory and infrastructure to thrive, especially during peak seasons. It’s necessary to expand to take advantage of good market conditions, but growth expenditures can quickly deplete precious cash reserves. Businesses also spend on a variety of operational costs, such as electricity, cleaning personnel, phone and Internet connections and even renovations or repairs.

On the other side of the ledger, there must be a steady flow of money coming into the business or reserves will quickly run dry. Slow business can erode cash quickly, so be sure to plan for the unexpected.

Understanding where cash flow problems originate can help you avoid them before they become an issue. If you know, for example, that your company will soon be facing rapid growth, declining sales or long collection cycles, you can take measures to combat these situations.

5. Build in options for yourself. If your business has the cash to pay routine bills and payroll and buy equipment and supplies, it may be in pretty good shape, but the real test of strength comes when a business has to come up with cash to cover the unexpected. In even the best of times, it’s often difficult for a growing business to find extra cash. Regardless, it’s important for every business to have up to six months’ cash in reserve, because a reserve fund could be the key to survival when faced with the unexpected.
Each time you’re able to reduce spending in one area or another, you might want to consider whether at least a portion of your savings could be diverted into your cash reserves. But whatever method you use to fund your reserves, it’s critical not to wait for extra cash simply to appear. Devise a plan now that will systematically build savings over time. If you feel building a reserve is an unattainable goal, consult with either your accountant or another trusted financial resource to help you devise a workable plan.

While not a replacement for cash reserves, financing can also be an important tool when reaching into your cash reserves isn’t appropriate or simply isn’t an option. Just like building reserves, advance planning is the best course for establishing financing. That’s partly because it simply takes time to line up several sources of financing. But you also won’t want to wait until your business is in need of cash because banks and other institutions may be more likely to extend credit to your business before cash gets tight or business slows.

6. Keep cash flowing. An ounce of prevention is worth a pound of cure when it comes to cash flow problems, so get serious about minimizing your business’ fixed expenses. A company should be big enough to cover only its most predictable, recurring needs. Find creative ways of handling peaks in demand without hiring additional staff; outsourcing certain jobs, hiring interns or temporary help to lend a hand in busy periods are good strategies for “right-sizing” and minimizing cash needs.

If you’re considering a new space to do business, think twice before committing to higher rent. If you feel you absolutely need to move to a larger and more costly space, you might consider the option of sharing part of the space with another small business.

When making purchases for your business, look for noncash ways to get what you need. Credit card rewards programs and frequent flier points can be effective cash substitutes, and bartering with other businesses for products or services may be an option.

Of course, many expenses must be paid in cash, and businesses are generally hit hard by these kinds of expenses because of the heavy upfront costs of inventory. One way businesses can even out their cash flow is by delaying payment through trade terms with vendors. Try to negotiate terms that will allow you to defer payment beyond the typical 30 days and reward you with a discount when paying early. Larger, more established businesses will have an easier time negotiating these terms, but small businesses with a good reputation for timely payment will have some room for negotiation with vendors.

Engineers can successfully grow their businesses by taking advantage of an early pay discount offered by some financial tools, such as the PlumCard from American Express OPEN that was designed specifically for managers and small business owners who experience variable cash flow.

For the cash coming into your business, make sure what you’re owed arrives on time by setting payment terms and expectations. If you extend credit to customers, be sure to make terms clear, and consider discounts for prepayment and appropriate penalties for late payment. Knowing when you can expect payment is half the battle, so don’t neglect good follow-up and collections. In addition, accepting credit cards will help reduce billing and collections costs so you can receive payment from credit card issuers in as few as three days.

7. Look for hidden opportunities. Carefully planning budgets and cutting expenses are important goals, but nothing replaces new business. Unfortunately, establishing major new sources of revenue in a down economy can be risky, and finding new clients is often difficult. There may, however, be some ways to generate more cash for your business simply by looking at your relationships with current and past customers or even competitors.

Sometimes making more money is simply a question of doing things more efficiently. With an eye on repeat clients and your most profitable jobs, look for patterns that could represent new opportunities. Perhaps you’ve been missing out on the chance to bundle services and up-sell to a particular type of client. If you notice, for example, that particular clients often come back to you for a specific type of project later, do what you can to sell these services upfront and make each job larger and more profitable.

You also may want to assess the profitability of various types of jobs. If you notice that a particular kind of service rarely rewards strong profits, perhaps there’s an arrangement or partnership you can form with a friendly competitor who specializes in that area. You may also see opportunities to partner with competitors or related businesses for projects that are outside your primary territory. Sending a crew to an out-of-the-way location, for example, can wreak havoc in the scheduling of other, more lucrative projects — particularly when you’re trying to keep staff to a minimum. Furthermore, far-flung projects always incur the added expense of travel time and gasoline.

8. Have a fallback plan. Despite the best of plans and most diligent cash management, there may be times when your company needs extra cash, so it’s important to have tools on hand for when cash is scarce. You should make sure your company is prepared with several sources of financing in advance. One of the reasons it pays to plan ahead is that some financial institutions may be more likely to extend lines of credit or loans to your company when it is in good financial health, and less likely when cash flow problems have already taken a toll on your finances. When seeking financing, be careful not to overlook special lending programs that your business may qualify for, such as those designed to assist small businesses.
owned by women or minorities.

Once you have credit available to you, use it wisely. Short-term financing options such as lines of credit, short-term loans or credit cards are best used for short-term cash needs. Likewise, long-term or secured loans should be used for the purchase of long-term investments.

9. Make smart decisions about staff. For most businesses, salaries and wages are often a huge drain on cash. That's not only because they require a lot of cash, but because there's also no delaying payment. While it can be tempting to cut staff to reduce expenses quickly, think twice before doing so. One of the traps business owners can fall into is cutting staff prematurely only to find themselves shorthanded when large projects come in later. And over the long term, it's important to remember that it can be very challenging — and expensive — to find and hire qualified employees when the economy does rebound.

If cutting salaries and wages is unavoidable, look for creative ways to do so without outright layoffs. For most employees, losing a few hours each week will probably be far more preferable than losing a job entirely. While even the most loyal employees probably won't be willing to settle for reduced hours permanently, this temporary tactic could help you through a rough patch and give you the time to find more business that will support a full-time staff.

10. Manage growth. Consistent growth is the best way to smooth out bumps in cash flow. When growth opportunities arise, plan carefully with an eye on cash flow projections. Make a conscious decision about how much you have to spend to reach your goal and how long it will be before you pay back the debt.

Every investment, whether in inventory, people or equipment, should have a clear return. Make sure each earns a profit, but also look at how long it will take to collect them. Likewise, if you look at each customer as an investment with a scheduled return, you'll not only improve cash flow, but profitability, too.

Entrepreneurs go into business because they thrive on the excitement of a good challenge, but even the most daring entrepreneur can do without the stomach-churning, rollercoaster ride of variable cash flow. Rid yourself of these avoidable bad times by keeping an eye on cash flow and enjoy the real thrills and excitement of doing business and making big decisions.

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