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**BEST PRACTICES
FOR MANAGING
YOUR BUSINESS**

CASH FLOW

Let's get one thing straight — your business can't survive without a consistent stream of cash. Cash is the *lifeblood* of your organization that funds day-to-day operations and strategic investment. Whether it is the regular cadence of payroll, bills from vendors, or creating new innovation to reinvest in your business, keeping your business flush with cash is mission-critical.

Running a successful business is challenging, but unexpected cash problems should not be one of those challenges! Just like marketing, strategy, and a great product/service, all require discipline, so does the responsible management of cash to continue to drive profit. Great stewardship is an absolute must!



Key actions to take to manage your cashflow

- **Make frequent cash flow projections.** Just like you manage other statistics, you have the opportunity to take charge and keep track of your financial data. When you analyze your fiscal data and make projections based on this information, it's easier to make accurate predictions about the future of your business.

This isn't all about luck and guesswork, either. Look at your financial analytics, and you'll know the likelihood of future failure — but also future success.

- **Plan Ahead!**

Put yourself up in a watchtower so you can see trouble coming way ahead of time. Look out beyond today or next month; evaluate at least twelve (12) months ahead. With this foresight, you can anticipate one-time events, seasonality, or other scenarios that dictate action for today.

By establishing controls, you ensure you don't get in a bad spot.

By [planning ahead](#), you avoid crises and unexpected results.

- **Track your money very closely.** This involves more than just an [Accounting 101](#), balance sheets, or some computer software that does all of your math for you. You'll likely need professional help and guidance to both handle your bookkeeping and advise you on future projections.

Should you obsess over your cash flow and cash position? ABSOLUTELY ...

A keen focus on liquidity is especially important as you are building your business! [Over 50% of start-ups go out of business within four years](#) — and nearly 30% of those companies ran out of cash! Even after your business is more “comfortable” with cash, your focus shifts to cash in profitable ways that allow your business to build value.

Note: Idle cash is also a common issue with more mature companies (THINK: opportunity cost!).



- **Use this information to form meetings and forecasts.** Once you've made predictions about your money based on the data compiled, periodic evaluation with key stakeholders becomes important to drive decision and execution. Keeping leaders informed about the cash flow situation is integral to communicating objectives and driving behavior.

For instance, if budgets have to be temporarily cut, the budget owner needs to own the changes and adhere to a revised target. Not only does this set a tone, but it also allows for input from those more directly involved with the operations of the business. **Identify problems at the earliest stage.** It's not abnormal to see some little blips in your cash flow, but this is something you have to monitor on a regular basis.

For instance, if the business is not operating as planned, highlighting the root cause as soon as possible allows for course correction. A common example is that sales are not coming in as anticipated.

It could be at a macroeconomic level. Whenever there's any noticeable problem with your financial sector, it's imperative you take note of the issue and watch it closely. If you don't take note of these issues, you may pay for them later.

There is a HUGE difference between fluctuations in cash and a "cash burn rate" that is, for all intents and purposes, financing the company's losses until it becomes profitable. This can be a dangerous situation (especially if the business owner's personal guarantee or assets are involved), and you will need to make sure your company is properly capitalized before you open up for business.

- **Understand and focus on net cash position.** The formula in laymen's terms is: "*Cash on hand at the start of the period + estimated cash inflows - estimated cash outflows = net cash balance.*" This should be included in your financial meetings, projections, and forecasts as an important estimate number and guidepost. Understand EXACTLY (1) how you generate cash, and (2) how you burn cash. Learn to understand what causes cash fluctuations.
- **Operational Cash Management.** Understand your cash receipt process and how you can speed it up. Sometimes this is as simple as getting invoices out in an expedited, automated manner that directly gets cash coming in faster. Other tactics, such as having commercial terms require a deposit before starting work or ordering any product (for delivery), will drive favorable working capital.

As it relates to payables, the converse is true. Understand your cash disbursement process and slow it down.

FUTURE

- **Watch how quickly you're growing.** There's definitely a risk involved with getting too big, too fast. As you get more orders and invoices generating from your business, you have to be precautious, adjusting areas like your [accounting team](#), as your business grows. Businesses incur more financial risks as they grow larger and larger. Keep a hawk's eye on your business' growth and the financial risks involved with this process.

As you grow, you must expect your cash fluctuations to get bigger and bigger in dollar amounts. You will need to get better at managing cash and potentially creating a safety net of debt financing.

For instance, a line of credit creates a flexible debt vehicle. Once a line is established, review often and work with your bank when you have growth spurts, increasing to support larger fluctuations.

Summary

Managing your cash flow isn't intellectually complex, but it's something that takes intentional effort and discipline. With the right business help, knowledge, and resources, managing your cash flow can be handled in a simple, effective and valuable way. Cash is the "heart" of your business. If it stops flowing, your business stops. Don't under-estimate its importance!

