

Properly managing cash flow is critical to business success

When you operate a business, in particular, a small business, cash is King! In general, if you're out of cash, you are out of business. This is why properly managing the cash flow in a business is critical to its success. In its simplest terms, cash-flow management means receiving payments from your customers as quickly as possible and making payments to vendors as timely as possible. However, managing your cash flow is not always that simple and can require additional time and effort to stay on top of it.

Is it possible for a business to be highly profitable, but run out of cash? Yes! Imagine you get paid for your sales at the time of purchase, like a retail store, you would rarely have a cash flow problem unless you are managing your inventory poorly.

However, for those businesses who do not get paid at the time of purchase, it is very important to manage your accounts receivable and accounts payables properly.

Businesses who give their customers time to pay for their products or services can run into serious cash flow problems if the customers do not pay as agreed.

Here are a few ways to improve your business' overall cash flow:

- Establish good credit policies for new customers and enforce them.
- Require deposits from customers at the time of order or before shipment.
- Offer discounts to customers if they pay sooner.
- Process orders quickly and issue invoices immediately.
- Establish procedures to follow-up on slow paying customers.
- Hire a collection agency or an attorney if needed.
- Reduce cash tied up in slow moving or obsolete inventory.
- Request and take advantage of discounts and longer payment terms from your vendors.
- Review and reduce unnecessary expenses or consider postponing purchases

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until absolutely needed.

- Don't always focus on price when purchasing, sometimes better terms can improve cash flow more than a lower initial cost.

Example: Consider a lower monthly cost now versus the total cost of something to help improve cash flow immediately.

- Consider consolidating your debt and stretching payments out in order to free up monthly cash flow for more important things. Again, the lower interest rate is not always the best for your cash flow. It may be better to reduce your monthly payments now versus your interest rate to improve your current cash flow.

- Establish a line of credit with your bank to take advantage of discounts or consider factoring if unable to secure a line of credit. A line of credit should be used to pay for normal monthly operating expenses and inventory, not to purchase fixed assets. A term loan should be used for fixed asset purchases.

These are just a few ways to improve the cash flow in your business. There are many additional ways, depending upon what type of businesses it is.

Seeking advice from professionals, such as your banker, accountant, or business consultant is another way to ensure you are doing everything possible to have a positive cash flow in your business.

Every business runs into difficult times, but those that stay in business are those that seek help when they need it. There is no single more important aspect to running a business than understanding cash flow and how to properly manage it.

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