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MasterCard Small Business



Improve Your Finances with a Cash Management Plan

Even a lucrative business can flounder if its money isn't managed correctly. Find out how to create a cash management plan that will make the most of your business's financial resources.

By Mark Anderson

What You Need to Know

- Create cash flow projections.
- Implement a cash flow analysis.
- Develop a more efficient model.

When it comes to small businesses and cash flow problems, Jerry L. Mills, founder and CEO of B2B CFO/CIO, LLP, a national partnership of part-time chief financial officers for small and midsize businesses, has seen it all.

But what he sees most often are small businesses that are growing by leaps and bounds but still struggling to pay their bills. "I talk to business owners all the time that say 'I'm doing \$20 million a year in sales, and I have less cash than when I was doing \$5 million a year in sales,'" Mills says. "There's a myth with many small business owners: If sales increase significantly, cash will increase significantly. The problem is, that's wrong—it's a myth."

Often ignored by small business owners, effective cash flow management—the ability to monitor and control the amount of cash coming in and out of the business at any given time—can be as critical to your business as increasing sales and maintaining strong customer relationships. That's because developing and implementing a successful plan to manage cash—the lifeblood of any company—can mean the difference between success and failure for many a small business.



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Look Into the Future

An effective cash flow management plan goes beyond simply sending out invoices in a timely fashion and making sure all your bills are paid on time. Instead, cash flow management is a process that employs a variety of different techniques that take into account changing business conditions to make sure the business always has enough cash on hand to operate successfully. Key to this process is the ability to create a cash flow projection—an analysis of how you expect cash to flow into the business in the future—and matching that projection with demands for that cash, such as inventory, payroll costs, vendor payments, sales and income tax obligations, capital expenditures and future business opportunities.

Find Out The Facts

Lay the foundation for your cash management plan by undertaking what is known as a cash flow analysis. Richard A. Foster, a Minneapolis-based CPA who specializes in small business, suggests a simple three-point strategy to get a handle on your cash-flow situation.

1. Start your cash flow analysis by adding current bank balances to actual and anticipated cash receipts during the period in question, such as the next 12 months. This process can identify how much cash will be received, when it will be received and what are the expectations for the future. It is also a good tool for managing seasonal fluctuations in business that impact your cash flow.
2. Next, subtract the actual and future cash payments, such as payroll, rent, inventory payments, taxes withheld or paid, benefits, asset purchases, utilities, and office supplies, from the available or expected cash balances for the period.
3. Finally, balance the cash transactions with the available cash. In the short run, this can mean making hard decisions on which payments will be made versus which payments are required. In the long run, the cash flow analysis provides the company with the ability to manage cash flow rather than leaving it open to chance or “first come, first serve.”

Managing Cash Guide

The Small Business Owner's Guide to Financial Control.

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Work at Maximum Efficiency

Once you've done your analysis, it's time to focus on areas of your business related to cash that you control to ensure you are working at maximum efficiency. For example, by actively managing your receivables and improving the speed with which you turn sales into receivables and receivables into cash, you can often improve your cash flow. Some



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techniques to manage your receivables can include requesting payment deposits, requiring credit checks, tracking payment rates and times, and flagging late or otherwise incomplete invoices.

On the flip side, controlling your payables—the cash going out the door—can be equally important. Foster suggests taking advantage of such techniques as creditor payment options, negotiating payment terms with suppliers, considering vendor offers of early payment discounts and focusing on payment terms when choosing suppliers.

Key to this process is getting a handle on how your plan is progressing on a timely basis. Ask for or produce your own cash flow report every week, and make sure to adjust it at regular intervals, say every 60 days. That way, you'll know if your projections are on target or what needs to be changed.

Gain the Right Perspective

When it comes to cash flow management, many small business owners make one crucial mistake: confusing cash flow with profit and loss. "The profit or loss at the bottom of a P&L statement is not cash," says Ruth King, CEO of BusinessTVchannel.com and a consultant and author who works with small businesses. "That's probably the biggest mistake that small business owners make. Profit is just telling you whether a job earned enough to eventually give you cash."



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Another misjudgment occurs when owners and entrepreneurs discount the importance of cash flow management to their business. Unfortunately, the consequences of such a perspective can be fatal. "The pitfalls [from not having an effective cash flow management plan] can be significant" for small business owners, says Mills. "They could risk not making payroll. They could not have enough money to pay their sales tax or income tax or they could not have enough money to pay themselves."

At its core, effectively managing cash is part and parcel of effectively managing your overall business. For his part, Mills believes putting into place an effective cash flow management plan can even help set you apart from your competition.

"Cash flow management is also a competitive edge," he says. "To have the cash available when a competitor stumbles so that you can step in, go to the customer, and provide better, quicker and faster service [because you have the resources available] can make a huge difference."

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Where to Find More Information on Cash Management:

United States Small Business Administration – Cash Management:

http://www.sba.gov/starting_business/financing/cashmanagement.html

Inc.com - Cash Flow Basics:

http://www.inc.com/guides/start_biz/20675.html

CCH Business Owner's Toolkit – Managing Your Cash Flow:

http://www.toolkit.cch.com/text/P06_4001.asp

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