# 7 Strategies *for Surviving a Cash Flow Crunch*

A positive cash flow is the key to business survival. It pays salaries, buys supplies, makes investments in infrastructure and funds future growth. A business with consistent positive cash flow is positioned to respond to real-time opportunities and challenges.


If you want to make great strides in your business, you need to know exactly how much money is moving in and out of your business so you can pivot and make changes quickly, if necessary. Cash flow provides a picture of money coming in through sales, financing and returns on investments. However, companies that experience too often negative cash flow have a limit on how long they can survive.

## Common Reasons for Negative Cash Flow:

1. **Fast growth** which requires additional cash upfront to ramp up your capacity to produce or sell, hire, and market. Sometimes the cost to grow exceeds the amount of cash on hand.

2. **Gross margin differences.** Often in businesses there is a large gap between sales price and cost of goods sold.

3. **Lag in the time** it takes to collect from customers on new business and the expenses of overhead, vendor supplies, salaries, and operations needed to run the business.

## Avoid Cash Flow Surprises

Even the best-run companies encounter a cash flow problem periodically. Fortunately, most issues can be prevented with a bit of preparation and the right strategy.

Using cash management disciplines recommended by B2B CFO®, you can proactively and effectively monitor cash flow and alleviate shortages before they become dire. Here are some steps you can take:

1 **Implement a cash flow budget:** Often, cash flow budgets will be prepared for six months or a full year in advance. They estimate all cash receipts and all cash expenditures that are expected to occur during that set time period. A cash flow budget may reveal some shortfalls and will force you to rethink through your expenses and profits. A budget will help you create “what if” scenarios and cash flow contingency plans.

2 **Utilize cash management tools:** There are many tools available designed to help businesses manage cash flow—from basic forecasting to creating a cash flow analysis that helps you identify and anticipate large cash outlays or seasonal cash flow cycles where a deficit or surplus will happen.

3 **Shorten collection times:** Your cash reserves can dwindle if customers regularly pay late. Customers should be invoiced daily, immediately after services are performed or products have been shipped. Actively manage accounts receivable with established collection policies. Consider creating a consistent collection process for when an invoice becomes overdue. For specific customers and situations, you can offer special terms or set a policy of collecting a deposit/down payment if possible. Be sure your own customer collection terms are in sync with your suppliers and vendor credit terms. For example, if your customers have 30 days to pay you, but your suppliers want to be paid within 14 days, a cash flow problem will arise.

4 **Develop a vendor payment schedule:** Effectively manage accounts payable. Don't rush to pay bills early unless you are taking advantage of favorable terms (i.e., 2%/10 Net 30). Businesses that properly manage payables will avoid incurring late fees and interest charges. Consider negotiating extended terms with your vendors and suppliers when possible. Many are willing to extend payment terms with businesses they view as long-term customers. By extending your payables and accelerating receivables, you can improve cash flow quickly.

5 **Decrease slow-moving inventory:** Develop purchasing policies to keep inventory levels at a minimum. A business' cash flow cycle is greatly affected by its inventory purchases. Businesses need to spend cash to buy inventory, which turns back into cash when it sells. Your cash flow is easily reduced by poor inventory management. Steps like planning ahead, establishing systems and implementing best practices to track the quantity you order, stock and sell will help you determine the most efficient inventory levels, which can significantly improve your overall cash flow.

6 **Establish a banking relationship:** There are times when your company can use a cash boost. A strong banking relationship is invaluable to your business when cash is tight. Take the time to cultivate banking relationships that can be leveraged when opportunities or threats confront your business. An established banking relationship should be able to provide solutions to help your business obtain financing, enhance cash flow and stay secure. Seek a banker who will be there even when times turn tough.

7 **Seek expert guidance:** The lack of a cash flow management process can be a costly blind spot. Sadly, many businesses fail because the owner did not identify a cash flow problem in time because they were managing everything else—except the books. The key to survival is implementing proactive cash flow strategies and monitoring tools to identify both long and short-term cash needs. B2B CFO® is here to help you better forecast and manage your cash in order to help fund growth and keep the business thriving.


If you need guidance on effective cash flow management strategies,
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