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Learn to Control Your Cash Flow

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Profits are great, but what your business really needs is cash. Feed your business with a steady stream of green in order to keep it healthy in good times and bad.

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If your company were a car, it would need gas to run. If it were a pet, it would need air to breathe. And if it were a plant, it would need water to grow. Your company, however, is none of those things. It's a business, and it needs just one thing to thrive—cash.



Specifically, it needs cash *flow*. "Cash flow is the lifeline of any business," says CPA Victor Hausmaninger, CEO of Irvine, Calif.-based HBLA Certified Public Accountants Inc. It's what pays your salary and your bills, funds your growth and repays your debts.

In other words, cash flow is what makes your company tick. If you ignore it, time will soon run out on your business. That is, unless you implement strategies today to keep cash coming in tomorrow.

What Cash Flow Is and Isn't

Improving cash flow begins with understanding it.

"It's money in the bank," says Roger Harris, president and COO of Padgett Business Services, a small business accounting and tax consulting franchisor that's based in Athens, Ga.

It is not, however, profits. "Ultimately, you need both," he says. "You need profits and cash flow. But if you don't have money at the end of the day, the fact that you can wave around a piece of paper that says you're doing really well is kind of a hollow victory."

That's because profit is theoretical money, according to Hausmaninger. Cash flow, however, is real. One—cash flow—is the difference between what you've actually made and what you've actually spent. The other, meanwhile—profit—is the difference between what you've technically earned and what you technically owe. If you've made a big sale, for instance, what good is it if the buyer doesn't pay his bill for six months? You may show a profit on your books, but without the cash you're still in the red as far as your unpaid creditors are concerned.

Make a Plan

Once you understand what cash flow is, you'll need a plan for managing it. And financial planning always starts with budgeting, says Wendy Alexander, vice president of Capital One Small Business in Richmond, Va., which provides a free virtual [cash flow seminar](#) for small business owners via its online Business Resource Center.

"A well-planned budget is crucial to improve and manage cash flow," she says. "Once a company is in motion, it's a tool that tells you whether or not your financials are on track."

When building that budget, Harris urges small businesses to keep seasonality in mind. "No matter what business you're in, understand that all businesses have cycles and seasons," he says. "Cash flow is not equal all 12 months. There are times of the year when cash flow is going to be at its height and there are times of the year when it's going to be at its weakest point."

Many businesses make financial projections for the year, and divide that number by 12. If you want healthy cash flow year round, however, you'll need to study your business cycle, understand it and then put money away in good months to spend during bad ones.

Get More Cash Now

A strong cash flow plan can get you started on the road to more green, but it can't always get you back on track if you've lost your way.

Luckily, if your cash is drying up, there are several ways to get it flowing again, according to Hausmaninger. "The areas that I always tell people to focus in on," he says, "are the management of receivables, inventory and suppliers."

When it comes to receivables, he recommends reevaluating collection policies in order to generate cash more quickly and more often. Consider, for instance:

- Creating a credit policy that outlines your standard payment terms.
- Requiring a deposit on goods or services.
- Modifying your procedures so that you invoice customers more often and more promptly.
- Offering discounts for prompt payments.
- Charging penalties for late payments.
- Running credit checks on customers before you seal the deal on a new sale.


After receivables, turn your attention to inventory. Small businesses are notorious for having more goods than they need, according to Hausmaninger. "Obviously," he says, "the more you invest in inventory, the more your cash really sits there, if you will, on the shelf." If your stockroom is overflowing with product, consider implementing a tight inventory control system—paying close attention to how many widgets you really need at a time—in order to free up money that you normally spend on product.

A third place to hunt for cash is with vendors and suppliers. "I have clients who pay their vendors too fast," Hausmaninger

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