

## **Business Bullet ~ Watch Your Cash Flow!**

The Chinese curse, “May you live in interesting times,” must have been coined in a business climate similar to today’s. Those of us who are feeling the economic crunch are more than a bit concerned about our cash flow. Chances are you know how much money you have in the bank right now. If you’re doing your own bookkeeping, or keeping a close watch on your receivables and payables, you can probably guess how much money you’ll have in the bank in a month.

But what about six months from now? Almost every business is affected by the state of the economy. As your customers get squeezed by the tight economy, they’re going to cut back on expenditures, or delay payments to vendors. Some, unfortunately, might even file for bankruptcy. You might suffer if you are one of the vendors.

Additionally, many of the business decisions you make today will affect your business in future months. Decisions such as hiring new employees, giving existing employees raises, building a website, and even signing contracts to deliver products or services to your customers in coming months all commit you to spend money in the future.

And, there are decisions the people you buy from make. The cost of supplies, raw materials, inventory, or services you buy may increase.

If you don’t stay on top of all these future costs, and if you don’t make accurate estimates about the cash you’ll have on hand to pay your bills when they come due, you could quickly find yourself between that proverbial rock and a hard place. In other words, even if you have plenty of business coming in, you may not have the cash on hand to pay your bills—and may not be able to raise it on short notice.

What can you do to track your cash flow, and attempt to boost it? There are a number of activities you can take now that can positively affect your cash flow in the near future, and down the road.

- 1) First of all, take the time to do a six-months cash flow projection for your business. Use figures that are realistic. Don’t overestimate your sales, or how soon your customers will pay their bills. To be on the same side in the current economy, make best and worst case scenarios. Base your figures on trends you’re seeing in sales now, as well as on prior year sales, if you have them. If your six-month cash flow projection looks ominous, take steps now to try to forestall future problems.
- 2) Get your customers to ‘show you the money’. The best way to get your customers to pay what is owed is to remove every possible excuse for nonpayment. See where you can begin to cut back on extending credit, and take a close look at changing your credit policies. If your work allows, get a deposit up front. And get an invoice into the bill payer’s hand as quickly as possible after the work is done or the product is delivered. If possible, don’t deliver the finished product until the bill is paid in full. Don’t be afraid to send a letter or statement or make a phone call to remind your customer their bill is due. Focus on preserving the relationship, but be firm. If a customer has a legitimate gripe about your business, do whatever you can to fix the problem.
- 3) Shoeboxes are for shoes, not business records. OK, it might not be you, but some small business owners don’t systematically track their income and expenses, who owes them money, and who they owe money to. You don’t have to have a big expensive computerized system, but a program like QuickBooks certainly could help. Or, you can keep track of everything with a pencil and paper. As long as you have a basic systematic manner of tracking information. This will help you keep track of cash flow, and let you sleep at night.
- 4) Budget is not a four-letter word. Budgets are our friends. Your business budget is a plan. It helps you stay focused on what you need to achieve. You can use your budget to help you achieve sales goals, determine how much you need to spend on advertising, how much you’ll need for materials, and if you can afford to pay overtime. Having a budget for your business is the difference between piloting a plane with instruments or flying blind in a fog.
- 5) A customer in the hand is worth two in the bush. It’s easy to get caught up in the search for new customers. But, never forget the ones you already have. What other services or products can you offer to them? How can you get them to refer their friends and colleagues to you? You can build a successful business around a small number of customers by providing them with excellent customer care and a range of solutions. Loyal customers are money in the bank, they’re easier to work with, and it’s less expensive to keep them happy than it is to find new customers.
- 6) The most powerful number in your business. If you know only one number in your business, it ought to be your Break-even Point. Your breakeven point is the moment in time when your income equals your expenses. If your income is higher than your expenses, you have a profit. If your expenses are higher than your income, you have a loss. To find your breakeven point you need to know what all of your expenses are. How much does it cost you to produce your product or deliver your service. If your business isn’t able to support you, (your income) you’re not breaking even. What do you need to do to achieve a level of sales high enough to cover your expenses? Your whole business plan can flow from that one number.

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- 7) How to make friends and influence check cutters. Take the time to get to know the folks that cut you the checks. Don't be afraid to build bridges and establish relationships. You meet lots of interesting people and your cash flow will improve.
- 8) Why paying taxes is a cause for rejoicing. The strategic approach of many small business owners is to have as little profit as possible at the end of the year. Otherwise, you'll have to pay taxes. So, year after year, small business owners make decisions in their businesses based on intentional lack of profitability. Now, for the majority of small business owners, what the IRS considers to be profit is in actuality your paycheck. Are you working to lower your paycheck? Would you put up with that from an employer? By putting up with it from your own business, you condemn yourself to a life of poverty just to avoid having to pay taxes. Think of it this way...if you're paying taxes, it means you're making money. I don't know about you, but I like making money. The bottom line is this: If you're paying taxes, it means your business is making money. Go out and make more! Don't let the thought of taxes hold you back. BUT, remember, don't boost your earnings and spend it all. Make sure you plan ahead for the tax bill!

OK, it's December, and the end of another year. So, I guess it is fitting to end on a note about taxes. So, I guess I'll get out my shoe box and review my business receipts. Oops, you caught me.

