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Prepare for Managing Small Business Cash Flow
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Cash flow is one of the largest determining factors of a small business' success or failure. Before a company opens its doors for business, there should be a plan in place for managing cash flow and creating safety nets for times when it's slow.

Every company will experience a lull in sales, late-paying customers, a business contract that didn't come through, or economic factors that affect the bottom line. When that happens, business owners can be forced to cut costs or secure alternative funding. It's critical to be strategic with processes and set expectations for customers from day one regarding your accounts receivable policies.

The first course of action is to work with a trusted bank that has treasury and cash management tools in place, as well as the expertise and desire, to help small businesses succeed. Managing a cash flow chart helps entrepreneurs detail the money coming in and out of the business on a daily, weekly and monthly basis and can include capital expenditures for a snapshot of the bigger, longer-term financial picture.

A certified public accountant can provide information on how key cash flow drivers are performing, as well as insight on any developing negative trends. Standardizing the invoice and accounting processes will help avoid disruption in cash flow and can speed the process of getting paid.

Business owners must keep a fluid calculation of their break-even point so they remain acutely aware of their minimum sales goals, how they must price products, and when expenses are on the trajectory to outpace profits.

Among the strategies business owners should put into place to optimize cash flow include the following:

Gross Margins
Know the industry standard for pricing of the products your business offers. Set costs at a level at which the business can be the most profitable, while still maintaining good customer flow. There's a balance between price, demand and business affinity. In other words, a coffee shop start-up among solid local and national competitors needs to compete on pricing, uniqueness in what it offers, or some other point of difference in order to attract customers and maintain consistent cash flow.

Send invoices immediately
If you're not selling smaller retail items like coffee, you should strive to send invoices within 24 hours after a sale. This gives the customer ample time to process the paperwork for payment.

Early payment discounts
Incentivize customers to pay early by offering a small discount, such as two percent off the total invoice if payment is received within 10 business days from the time it was issued.

Business line of credit
A line of credit can be established for use when businesses experience a large gap in cash flow as a temporary safety net. Be aware, though, that the time to get that line of credit is before you really need it, so planning ahead is key.

Cash reserves
The cash flow chart is also the compass companies should use to determine the amount of cash reserves needed during slow periods. A conservative estimate for cash reserves is the equivalent of three months of cash flow; however, a reserve of six months is recommended.

Accounts receivable financing
To offset the deficit from payments that are not received on time, businesses may consider invoice factoring, also referred to as accounts receivable financing. This is a borrowing option that lets businesses convert the balance of invoices that are not due for another 30, 60 or 90 days into cash for immediate use.

Manage inventory levels
Too much inventory will use up available cash. When getting started, purchase as little inventory as possible but make arrangements for quick delivery of additional inventory when supplies get low. Managing inventory levels and consistently cycling out old inventory will help promote active cash flow, but manage discounts of products and services carefully because they ultimately cut into the profit margin.

Control debt
As businesses grow, owners can get ahead of themselves and create unmanageable debt. There are healthy ways to leverage debt, taking us back to the point of creating a cash flow chart and working with an experienced financial advisor to plan the next stage of the growing business.

For every question about managing cash flow, there is a solution. Business owners have access to proven tactics and a variety of resources that can help them build, operate and grow their business efficiently and successfully.

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