

The Importance of Strong Cash Flow Management

By Jeffrey Wilke • Management/Coaching Consultant

You may have heard the phrase, “cash is king.” There s a reason for the common use of this expression in business. Without positive cash flow balances, businesses quickly fail because they can t pay the necessary bills to keep them in operation. Many business owners think in terms of profit instead of cash. It s important to realize that cash – not profit – is used to pay for expenses in the daily operation of the business. Profitable businesses can still fail when their monies are tied up in assets and cash isn t available to pay bills.

This fact stresses the importance of strong cash flow management by business professionals and becomes more critical during times of economic uncertainty. But you can take steps to better manage cash flow and prevent unnecessary cash problems. Here are some key areas and associated techniques to focus on when managing your cash flow:

General Cash Flow Management:

Prepare a cash flow budget by forecasting sales, cash receipts, expenditures and cash balances. Projections should be on a monthly basis for at least one year and include all anticipated variations in sales.

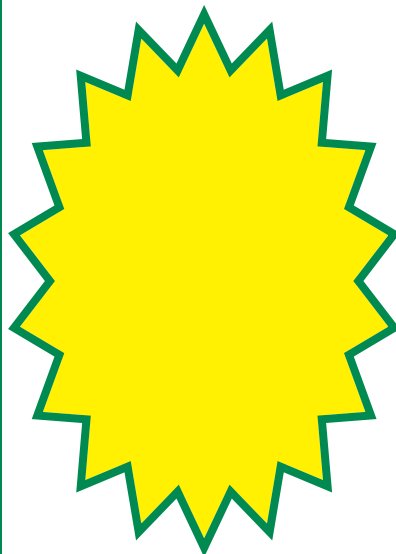
Use this budget to help ensure that there s enough cash on hand to meet the company s obligations. Always strive to reduce cost and waste throughout your business. Get employees involved and work to create a culture based on these principles.

Accounts Receivable:

Deposit payments and credit card receipts daily. Your main goal is to turn your receivables into cash as quickly as possible.

Entrepreneurs who sell on credit also need a strong collection program in place. Use customized credit applications to help screen customers before granting credit.

To speed up customer payments, invoices must be sent promptly. In addition, timely action should be taken when an account becomes past due. Print and monitor reports that reflect the aging of accounts receivable. Keep in mind that the older the receivables, the less chance you ll have collecting on them, resulting in decreased value and poor cash flow.



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Inventory:

Inventory is often the largest capital investment for most businesses and if not properly managed, can become a significant strain on the company's cash flow.

The cost of maintaining inventory can become excessive especially when factoring in additional expenses such as shipping & handling, storage, necessary staff and insurance. The goal is to carry just the right amount of inventory to meet demand.

Identify and develop strong relations with reliable suppliers who can best deliver goods quickly and frequently so that you can keep inventory levels low. If necessary, mark down items that aren't selling well to avoid carrying excess inventory that may become obsolete.

Accounts Payable:

Strive to build good relations with suppliers and vendors to better negotiate favorable credit terms and to create added value in your supply chain. Make payments to suppliers and vendors to your company's advantage. For example, payments can be stretched out if necessary or perhaps paid early to take advantage of any cash discounts.

Effective cash flow management consists of a wide range of concepts and tactics, so we've only scratched the surface. The importance of cash flow cannot be overstressed. It's the lifeblood of any business. Strong cash flow management is necessary to keep your business healthy and competitive.

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