Save Your Small Business With These Cash Flow Strategies

7 min read

Key Takeaways

- Forecasting Starts With Data Collection: With automated data collection that precisely tracks the cash flowing into and out of your business, you will have reliable information available at all times.
- Best-Practices for Managing Receivables: To prevent cash flow shortages from occurring or help your business get through a current challenge, consider implementing the following best practices for managing receivables...
- Avoid Shortages With Optimized Pricing: How can you go about optimizing your pricing for better cash flow? Start by figuring out what your services are actually worth, so you can ask for the right price in return.

Everything about your business can be perfect – your people, your services, your advertising, and your market – but, no matter how flawless your business seems to be, you can still encounter cash flow problems that could threaten your company's future.

Whether you're experiencing a cash flow challenge now or want to avoid one in the future, the following cash flow management strategies will help you save or safeguard your business from the most common reason businesses fail (82%, in fact) – **cash flow shortages** [1].

5 Strategies for Better Cash Flow and a More Secure Business

1. Cash Flow Forecasting

Looking at a balance sheet, income statement, and budget alone is going to give you a very cloudy picture of how much cash is actually flowing in and out of your company and how much you can expect to be there next week when payroll is due.

As a business owner, you should be looking at a regular cash flow statement and cash flow forecast that predicts what the next year, quarter, month, or even week is probably going to look like.

Forecasting helps you determine what your cash flow is going to look like in the future. It takes into consideration your company's past performance, the speed at which clients usually pay, and your currently expected receivables, in addition to your own schedule of payables, your current cash standing, and a slew of other factors.

Having a cash flow forecast gives you insight into what your future cash flow looks like so you can anticipate challenges before they happen – rather than reacting when it's already too late. As a result, you can prepare, plan, and execute new strategies to save your business from suffering the detrimental impacts of a cash flow shortage.

2. Forecasting Starts With Data Collection

Now that you know the importance of a cash flow forecast, let's get into the nitty-gritty details.

It starts with making sure you are getting timely, accurate financials. Accurate cash flow forecasting and successful cash flow management depend almost entirely on solid data collection.

Cash flow forecasting requires you to make an educated guess about your upcoming cash flow based on all of your company's past (accurate) financial data including:

- Past revenue, expenses, and profits
- Your own upcoming expenses
- Vendor payment policies
- Your customers' payment histories

With automated data collection that precisely tracks the cash flowing into and out of your business, you will have reliable information available at all times. With data at your fingertips, you'll be able to predict your future cash flow as accurately as is humanly possible.

> "Our cash flow improved on the very first day GrowthForce took over billing and collections. They took the time to understand our processes and built best practices based on our unique needs. Our cash flow is so much better after we hired GrowthForce."

- Art Saxby, CEO Chief Outsiders™

3. Best-Practices for Managing Receivables

Managing receivables plays a key role.

When it comes to managing receivables, your top priority should always be to keep the cash flowing into your business.

To prevent cash flow shortages from occurring or help your business get through a current challenge, consider implementing the following best practices for managing receivables:

- Invoice promptly and follow up with late accounts immediately.

- Provide your clients with several ways to pay by accepting electronic payments. Electronic payment options not only make it easier for your customers to pay you, but they also get the money into your account faster because you don't have to wait for a check to make its way through the postal system and then wait for funds to be collected in your account.

- Offer discounts for rapid payments. If you struggle, waiting for customers to remit their payments to you on the last day of their payment period, then consider incentivizing early payment with a discount. Just be sure to check your profit margins before setting a discount rate and to be certain that you have enough wiggle room to offer a discount in the first place.

- Adjust your payment policies to require a deposit or partial payment upfront. This will reduce days sales outstanding for better cash flow.

- Avoid payment delays and unpaid accounts by requiring a credit check on any new non-cash customers.

- Keep track of your receivables to identify clients that pay slowly. You can either adjust their payment terms to ensure you receive payment when you actually need it or avoid doing business with them again in the future.

As always, make the most of the modern luxuries that are available to businesses. Responsibility-heavy, time-intensive tasks of the past can be easily automated today. Using fully integrated software from companies like Bill.com will take the pressure off of your bookkeeper with automatic invoicing, payment reminders, and prompt collections.

4. Improving Cash Flow by Managing Payables

Strategic management of your payables is essential to both managing cash flow and saving your business in the event of a shortage.

Use this cheat sheet for accounts payable best practices to consider implementing:

- **Take advantage of the full extent of your vendors' payment terms.** If you don't have to pay for 30 days, then use electronic payments to pay on the 30th day. This allows you to keep more cash in your business for longer, so you can make the best use of it until you truly need to pay a bill.

- **Before you pay early in exchange for a discount, consider the true savings and whether your cash flow can take the hit.** While early payment discounts are an attractive way to save a little money on avoidable expenses, they are not always worth it. Sometimes, they can be like giving a vendor an interest-free loan for the length of your actual repayment period.

- **Look for flexible payment terms.** When choosing vendors, you most likely look for the one offering the lowest prices in exchange for the best quality product or service. However, you might also want to consider the vendor's payment terms. If cash flow is an issue for your business, deciding to go with a vendor that offers the most flexible payment terms might actually be the smarter option for the health of your cash flow

Keeping that in mind, the more money you hang onto, the bigger your bottom line. So, before foregoing discounts or paying extra for flexible payment terms, really consider whether you need to skip over potential savings for improved cash flow management.

5. Avoid Shortages With Optimized Pricing

One of the most common reasons why businesses encounter cash flow shortages actually has nothing to do with the timing of payments- and everything to do with pricing problems.

Pricing is the number one decision any business owner will make. If you don't charge enough for your services, then you're going to suffer cash flow shortages – period.

So, how can you go about optimizing your pricing for better cash flow? Start by figuring out what your services are actually worth, so you can ask for the right price in return.

There are lots of ways to evaluate your pricing structure like considering your competition and the market. The best way (and what we recommend to our clients) is carefully evaluating your direct costs, allocating indirect expenses to jobs, identifying the gross profit margin you need to stay operational and growing, and building it into your prices.

Automate Processes for Better Cash Flow Management

What is one thing all of these cash flow management strategies have in common? The need to automate your back office with integrated software solutions.

Automation not only makes better cash flow management possible, but it also makes it realistic and affordable. With automated bookkeeping and accounting processes, you'll save time and avoid cash flow challenges.

A smart back-office gives you continual access to accurate financial data and cash flow statements in addition to perfectly timed invoices, collections, and bill payments. With cash flow management this well-coordinated, your business could win gold at the cash flow Olympics (if that were a thing), but you'll have to settle for winning future success, instead!