How to Manage Your Cash Flow: Stephen King's Advice on Timing It Right

9 min read

In inflationary times, cash is king. History is known to repeat itself- and history tells us that improving your business's cash flow is the weapon of choice to combat inflation.

How you manage your cash flow can make or break your business. So, what steps and actions can you take **today** to prepare your business?

Key Takeaways

- **What Cash Flow Is and What It Is Not:** According to King, "Cash flow is about timing. It's about the timing of when the money flows into the company, any sources of funds, and the timing of...
- **Managing Cash Flow With Forecasting and Cash Flow Statements for Business:** A regular cash flow statement shows you the amount of money flowing in and flowing out of your business at any given moment. This is useful for understanding...
- **Small Business Accounting Services That SMBs Can Actually Afford:** With the right help, small business owners can leverage these kinds of financial insights into their businesses to improve operations, grow, and maximize their profits...

We'll make it *simple*: GrowthForce Founder & CEO Stephen King recently sat down with Mary Baird's *The Simplifiers Podcast* to talk with her about how learning to manage cash flow can simplify the path to profits and success in a small business.

Cash Flow Definition: What Cash Flow Is and What It Is Not

First thing's first. To understand cash flow management, you need to understand what cash flow is and what it is not.

According to King, "Cash flow is about timing. It's about the timing of when the money flows into the company, any sources of funds, and the timing of when it's got to go out, so the uses of funds. What it's not is profit. Profit is how much you charge someone and the excess of that over how much it costs you to deliver your services or sell them a product, and that has nothing to do with timing."

To state it simply, King said, "Cash flow is about when you get paid and when you have to pay."

Understanding the timing of cash flowing in and out of your business means understanding how much free cash flow you have at any given moment, and free cash flow is the money you have available to spend on anything. In other words, free cash flow is money that is not already earmarked to pay vendor bills, cover your overhead, or purchase supplies. Free cash flow is the money you can use to reinvest in your business, put in savings for a rainy day, or you can take home as profits.

The primary goals of cash flow management are to balance the timing of cash flowing in and out of the business, minimize cash flow shortages (not having enough money flowing into the business when you need it to pay bills), and maximize free cash flow (having more excess money flowing into the business).

Managing Cash Flow With Forecasting and Cash Flow Statements for Business

Forecast 13 Weeks of Cash Flow

A regular cash flow statement shows you the amount of money flowing in and flowing out of your business at any given moment. This is useful for understanding the current state of your company's free cash. Cash flow forecasting, however, is even more essential to actually manage your cash flow. When you start using cash flow forecasting, you can implement strategies to prevent cash flow shortages from occurring, so that you are not caught off-guard by a shortage and forced to scramble or compromise when looking for solutions.

King recommends forecasting out at least 13 weeks (just over a financial quarter) in advance because this gives business owners enough time to come up with (and put into place) a viable solution to avoid a forecasted cash flow shortage. Thirteen weeks is enough time to solve a cash flow problem before it occurs – whether your solutions mean needing to look for investors or needing to secure a bank loan such as a working capital loan, cash injection loan, or a revolving line of credit.

(Credit lines are often useful in seasonal companies or businesses with slow accounts receivable or days paid outstanding metrics. However, be careful to shop around for the lowest interest rates and fees possible, as loans will increase your expenses and can worsen existing cash flow problems if they are not accounted for with price adjustments.)

Understand Why Cash Flow Problems Exist

You can only fix cash flow problems if you understand why they exist in the first place. Businesses encounter cash flow problems for a variety of reasons, but there are two common issues that are usually behind cash flow problems: pricing problems and poor accounts receivable management.

Don't Be Afraid to Increase Your Prices

Pricing problems occur when businesses do not price their jobs, clients, products, or services for profits. When a job is finished and the direct labor and direct materials have been paid for, all that matters is how much money is left – how much net income you hold onto to cover your overhead costs and hang onto a profit.

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To ensure your prices are right, you need to know your costs this includes direct costs (cost of goods sold or direct labor and direct materials) in addition to an allocated portion of indirect or overhead expenses. Using unit economics, you can do a better job of pricing your jobs to cover the COGS, a portion of allocated overhead cost, and your take-home profit. To price properly, you need to price for the profit margin you need to stay operational and profitable.

If you need to increase your prices, King says now is the best time to do it. With inflation all over the news, your price increases are not going to surprise anyone. So, if you need to fix your prices to generate better profit margins, don't be afraid to go for it now.

Maximize Profit Margins – Not Revenue

More revenue does not automatically translate to more profit. Higher profit margins translate to higher profit.

As King put it, "People often think, 'I can sell my way to profits.' But this causes you to have lower profits because you're not pricing jobs right."

In other words, if you have weak profit margins – or no profit margins – built into your pricing, then selling more is actually going to make your cash flow situation worse, as even more cash flows out of your business to cover the cost of doing business and too little cash continues flowing back in.

Be Confident in Your Value

When it comes to negotiating prices, your clients might attempt to talk you down. Stick to your guns. You've already done the work of building healthy profit margins into your prices and you know how much you need to charge in order to keep your business running smoothly. So, don't undercut yourself – even if a competitor is charging less.

In these situations, turn to the salesperson inside of you and sell your value. What it is that you do that makes you better than the competition? What kind of quality do you provide? Remind your customer why they chose you in the first place. Do not discount your services or discredit the value you offer. If you believe you are worth what you charge, your customer ultimately will, too.

Read More: Save Your Small Business With These Cash Flow Strategies

If they don't recognize your value, it's not worth losing money on a job and creating future cash flow problems just to satisfy a customer who didn't truly value your work.

Be Upfront About Billing Terms

The second most common reason why businesses encounter cash flow problems is poor management of accounts receivables (i.e. poor management of the money that is supposed to be flowing into your business). To get a better handle on receivables, you need to be upfront about your billing terms with every single client.

Right from the start, tell them how much you require as a down payment or retainer fee and exactly when you require the remainder of your payment. Next, find out how they prefer to be billed, where the invoice should be sent, and how they plan to pay. This will help you avoid any snags with delivering your invoice and receiving payment.

Do everything you can to collect payment as often as you can in order to shorten your sales cycle (days sales outstanding metrics). If you provide ongoing services or jobs that span over a lengthy period of time (such as construction), bill weekly instead of monthly.

Monthly billing means you miss out on receiving incoming cash flow for three weeks of every month or 36 weeks every year.

Check Credit and Practice Using the 3 Fs of Collections

If your business invoices clients for payment and does not require 100% payment upfront, then you are effectively extending credit lines to your customers, and you are allowed to check their credit before you do business. King recommends practicing this kind of due diligence to safeguard your receivables, minimize the need for collecting, and protect your cash flow.

For every bill you send, there's someone on the other end doing their best to pay slowly in order to maximize their own free cash flow. So, additionally, you should be making sure your clients understand your late payment penalties and terms from the beginning. You absolutely should be charging late fees when customers do not pay on time.

If you do have to collect, practice the 3 Fs of collection to maximize the success of your collection conversations:

- **Be Firm** - Make sure you get a repayment commitment from your client. You can keep tabs on this commitment and follow up immediately if they do not follow through.
- **Be Focused** - Remember the purpose of the call is to collect your payment – not to make more sales. For this reason, it's best to have an accounting representative (not a sales representative) make collection calls.
- **Be Friendly** - As the saying goes, you catch more flies with honey than with vinegar. Be nice, courteous, understanding, and sympathetic to your client's stress at not being able to pay you. Do your best to minimize your client's stress, explain the stress their lack of payment is causing you (i.e. you need to cover the costs of the services you provided to them), and be willing to work with them to make a plan for repayment.

If you've had trouble with repayment from a client in the past, make a note and do not forget. In the future, you should consider reworking payment terms for these clients and require 100% of payment upfront before you do business with them again.

Small Business Accounting Services That SMBs Can Actually Afford

The concept of cash flow statements and cash flow forecasting can seem overwhelming to many small business owners – especially when they do not have a background in accounting. The concepts, however, are not too difficult to understand and apply to your business. With the right help, small business owners can leverage these kinds of financial insights into their businesses to improve operations, grow, and maximize their profits.

Outsourced accounting services are the perfect solution for small and medium-sized business owners to access the tools, teams, and technology that are necessary for collecting, recording, organizing, reporting, and interpreting financial data. With the right bookkeeping and accounting partner, even the smallest businesses can afford to access financial insights that they can use to improve cash flow management and successfully drive their business growth.