

minding your biz

How to get control of your cash flow

Managing Your Cash

BY MICHAEL NOLAN



We have all had cash shortages at times in our businesses. This is certainly true in tough times. Cash crunches also commonly occur when business is very good and we're growing. Here are some simple, proven steps to better cash management.

Step No. 1: Set up cash receipts/disbursements budget

List your receipts over the past two months and record cash disbursements. Do not include non-cash items, such as depreciation. Include only checks written.

If, after subtracting disbursements from receipts, you are left with a surplus — kudos for a job well done. If you come up with a negative number, you are short of cash to meet your obligations and will need to consider where this additional money will come from to cover the bills. Will it come out of equity? Will you have to borrow? Can it be borrowed from an escrow fund?

Step No. 2: Eight-week cash flow forecast
Once we understand how the usual cycle

works, we need to be able to utilize this information and complete an eight-week forecast on the source of cash, its needs and uses. This should be prepared with a considerable amount of attention to detail, since accuracy is especially important. The better we forecast the better we will understand the sources and uses of the funds in this organization.

Step No. 3: Require deposits

Do you ask customers for an advance or deposit on orders? What about custom or special order items? If a customer is new to you, it is good practice to require a deposit or full payment with the first order. Just a simple phrase like, "It is our practice to take a 50 percent deposit on all new orders" will result in additional cash flow and reduce short-term borrowing.

Step No. 4: Dialing for dollars

Prompt invoicing and monthly statements are critical to great cash management. But the most effective and powerful tool in collecting receivables due to you is to pick up the phone and call.

Step No. 5: Negotiate cash purchases

Congratulations! You've just won the request for quotation you submitted 10 days earlier. Your company has been awarded a firm price on a contract for product or services. What's your next step? Go directly to your suppliers and negotiate a better price.

Step No. 6: Schedule payments to suppliers

Whenever possible, take advantage of prompt-pay vendor discounts. Know which vendors are offering discounts and utilize them whenever it makes sense. Do you offer terms for quick pay? If not, why not?

Step No. 7: Set up a sinking fund

Putting aside 5 percent of weekly collections for a sinking fund is critical. You will be surprised at how quickly this fund will grow. It is not painful, and it will pay off for you when you most need it. This alone will remove stress from your life.

It's all a matter of focus and discipline

Step No. 8: Deposit all receipts daily

No matter how small the deposit might seem, all checks will clear, and you will receive the money faster. We are looking always to maximize our available funds.

Step No. 9: Sweep accounts

Once you are comfortable with your cash and collections cycle, talk to your banker about a "sweep" account. Determine the level you'd like your daily balance to be. The bank will, on a daily basis, sweep everything else into an interest-bearing account. If the costs make sense, the daily sweep can contribute to cash flow.

Step No. 10: Talk to your banker

If you set an appointment to discuss future borrowing needs with your banker before you need cash, he or she may drop dead from fright. In any event, your banker will understand that you know your business and are probably a good risk. Know your cash needs. Anticipate shortfalls and negotiate rates when you do not need the money.

Step No. 11: Spread the risk

The person who deposits the money in the bank should not be the same person who writes the checks or reconciles the bank statement. That is bad business practice. Review monthly (or at least once a quarter) the deposit slips and the written checks. You will be surprised what you learn. Banks make mistakes too.

Practical cash management is a matter of focus. In order to get control of a situation, break it down into manageable bites and take positive action. When in doubt, call in experts — some consulting firms specialize in planning and implement forecasting tools. A small investment today in the maximizing your cash can yield perpetual dividends in the future. **NBR**

Michael Nolan of Portsmouth is managing director of Braver Business Strategies LLC, Newton, Mass., a service line of Braver PC, the eighth-largest accounting firm in Massachusetts.