

How Can I Improve my Company's Cash Flow?

By Dick Barth, SUNY Geneseo Small Business Advisor



Even in the best of times and for the best of businesses, cash flow management can be challenging. And even though its importance can be overlooked day to day, it plays the central role in the health of a business in both the short and long term, because cash is what a business uses to pay all the relentless bills that come in day after day.

A lack of cash is one of the primary reasons small businesses fail. Cash flow forecasting is a relatively simple, but crucial skill that helps a business owner understand where and when cash will be needed. Yet many of the established business owners I talk with who are having money problems do not understand this important skill.

A cash flow statement works like your check book. You deposit money in your account and then itemize the checks individually in the ledger as you write them to pay your bills. After each check is written you subtract the amount from the balance, and can see how much cash is left in the account. The only difference with a cash flow statement is the time period used to examine the account. So, instead of seeing a balance left after every check written, you might see the balance every week, or every month.

Forecasting is similar and equally simple, but it's done in advance of writing the checks and predicts how much cash will be needed to cover the costs in each category of expense. Those categories include costs for things like labor, utilities and rent.

Forecasting is not as hard as it might seem at first, and once it has been set up, usually using a month to month time frame, you can look at the actual expenses and compare them to the prediction, which leads to better forecasting and better management.

The benefits of doing a forecast are always large because the process itself reveals unexpected information. As you examine each expense category, for example labor costs, you might realize seasonality to your income that will affect the amount of labor you

need. Or, you may realize there is a short fall of income in a specific month that requires you to cut back on variable expenses, or bring in cash from a line of credit.

If you need to get a handle on your daily cash flow, call me at the Small Business Development Center at 585-245-5429. I can work with you individually to determine your cash needs, set up a forecast, and help you uncover expense reduction or sales increase opportunities that can make a big difference to your bottom line.

Good cash flow management that leads to profits begins with cash flow forecasting.

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