



October 2014

Cash Flow | *A Critical Part of SE Planning...*

For the small business owner and self-employed individual, cash flow management does not need to be mysterious or complex. Managing cash is all about timing the inflows and outflows. In its simplest form, cash flow refers to the flows of cash, literally, into and out of the business. Think in terms of actual cash, dollar bills, flowing in and out of the business, and then identify both their sources and uses. This is cash-flow analysis.

CASH FLOW ANALYSIS |

Cash Flow Analysis starts the process. This can be as simple as going to your check book or accounting system and analyzing your receipts and disbursements over the past few months. A pattern is likely to emerge. What are the revenue sources, and how consistent are they from month to month? As well, what are the expenditures, and how repeatable are they from month to month? Next, look at the incoming revenue stream from your sales forecast and your Accounts Receivable to confirm and further predict cash inflows (receipts), and your expenses or Accounts Payables to build a pattern of required future disbursements. Match the two. Is there a positive or negative cash flow?

NEGATIVE CASH FLOW |

If there is a negative cash flow, the deficit needs to be covered from somewhere. There are two options; (1) spend less, and (2) get more (increase revenues). Even if the cash flow is positive, inspecting the individual elements may further improve operations. You should always ask yourself, "are there cash inflows or outflows that can be changed?" In other words, "where can I spend less and where can I generate more revenue?" By eliminating certain costs, small business owners and self-employed individuals can greatly improve their business' cash flow. When spending less is impossible or improbable, and sales cannot be increased, businesses that generate Accounts Receivables can investigate factoring to help them increase revenues. Factoring providers, such as 1st PMF Bancorp, offer alternative financing and invoice factoring solutions for small businesses. By utilizing these types of services, a small business can gain immediate access to these otherwise delayed revenues.

CONTINGENCY RESERVE |

Another way that small business owners and self-employed individuals can help secure the success of their business is by utilizing a contingency reserve. Contingency reserves are funds that are set aside to protect against future losses. For example, say you are a self-employed individual contracted to sell ads in a monthly magazine. Your quota each month is to sell \$4,000.00 worth of ads. But, what if you aren't able to meet that quota? During the month of July, you are only able to sell \$3,000.00 worth of ad space for the magazine; leaving you \$1,000.00 in the hole. Your only option is to pay the remaining \$1,000.00 out-of-pocket to the magazine company. If you have a contingency reserve, you can use that saved money to help pay this unexpected cost.

HAVE A CASH FLOW STRATEGY |

Ultimately, understanding your own cash flow cycle is paramount to the success of your business. Cash flow management is a problem for almost any firm, large or small. The worst symptom of the problem: the business runs out of cash. Watching a business floundering, running out of cash even as it makes great sales and profits is painful. Painful though it may be, it is common and repeatedly the cause of business failure. It is essential to take time to experiment with combinations of different alternatives. A controlled cash flow, the end result of this process, will more than repay the time and effort given to it. In fact, it may save the life of the business – and the future of the owner/managers as well.

NOTICE:

- Check out the new **Benefit Earnings Threshold Matrix** found on BuzVR.org
- Help your SE customers better by utilizing the **New VR Business Development Systems Documentation Workbooks** for **Tier 1 & Tier 2** which just came in the mail!

For more information, visit: <http://www.buzvr.org/>



Happy Halloween from the Team at KISBD!



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