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Advice To Business Owners Worried About Cash Flow

Most small business owners are concerned about their cash flow. It's a common fear, part and parcel with running a business, that cash will not be sufficient to meet obligations at some point in the future.

One moment you feel like you are in a good liquidity position, and then a few unexpected turns later, you are facing another cash crunch.

Some of the pain could be avoided if more business owners monitored their cash flow, and invested the time to project out several months at a time what cash flow will be. Doing so helps identify trouble spots, often caused by clients not paying as soon as you thought they would, and warns you when you need to focus more time on collections or arranging financing to meet any shortfall.

A new poll of business owners revealed a troubling side effect of these cash crunches: **A majority of small business owners report that they miss out on significant sales revenue as a result of strained cash flow**.

- 60% of business owners worry about a lack of consistent cash flow affecting their business.

- Of those owners, 75% said they have missed a sale or passed on a business opportunity because they didn't have enough cash to support the growth.

- 48% of small business owners reported seasonality as a concern and a top cause of cash shortages.

- Slow-paying customers are a challenge for 29% of small business owners, and the need to invest in inventory or supplies before getting paid for a job is a concern for 15% of owners.

- 41% of business owners have used personal loans, and 11% have turned to personal credit cards when looking for solutions to make up for shortfalls in cash.

- Invoice financing has been used by 24% of owners, while 18% have utilized short-term business loans.

- Just 9% of small business owners said they have used a business line of credit to bridge gaps in funding.

What can small business owners do to more effectively manage these challenges?

Slow invoice payments by customers are a growing problem for businesses of all sizes. It’s often the cheapest source of financing available to your customers, depending on your policies. Your customers are turning 30-day terms into 60 or 90-day terms, while your suppliers may not allow you the same latitude.

Your stated payment terms, the consistency of your accounts receivable efforts, and levying your own finance charges on stale balances will all play a role in how much of a drag on cash flow accounts receivable becomes for your business.

The best run accounts receivable departments 1) make it known upfront what the payment expectations are with each client, 2) follow the first invoice sent with another two weeks later if it remains unpaid, and 3) send monthly statements reflecting finance charges on past due balances. They are heavy on the communication front. Once an invoice reaches its due date, the client receives a courtesy call on top of these other actions.

Depending on the industry, long payment terms may be the norm and an unavoidable fact of life. In those situations, the business may need to seek outside capital to supplement cash flow when increasing amounts of cash is being tied up in accounts receivable.

For those businesses with longer track records and solid finances, the best course of action is to secure a bank line of credit in an amount sufficient to fund cash tied up in working capital. This is usually the most flexible and cheapest source of outside financing.

For those businesses that don’t qualify for a bank line of credit, they may want to pursue an invoice financing solution. These lenders will lend 85%-95% of the amount of your customer invoices on the day of issuance, and fund those days between invoice issuance and collection. Invoice financing providers get repaid once the invoice payment is received from borrower’s client.

Your business shouldn't have to miss a profitable business opportunity because you don't have adequate supplies on hand, or because you can't afford to wait to get paid. All of the company's stakeholders, including your lenders, benefit from capturing these opportunities, even if the margin must be less to accommodate financing costs.

Be sure to address upfront potential cash flow shortages caused by upcoming opportunities and growth. Have a bank line of credit in place, or arrange for purchase order or invoice financing, and identify all other sources of capital the business can turn to, and have them ready for access.

Cash flow concerns may be a fact of life for small business owners, but with careful planning and the right financial tools, you can make sure that a short-term cash crunch doesn't cost you profitable business opportunities.