Cash Management

Cash flow is probably the most important part of any successful business. Without proper cash flow, a company cannot sustain itself. Cash flow is simply the movement of cash in and out of your company. It provides analysis that shows whether or not your daily business activity has generated enough cash to meet your financial obligations.

Therefore, the management of your business cash flow must be a business priority. The availability of cash to pay business bills is essential to a company's survival. Without sufficient cash resources, a company cannot continue and will go bankrupt. Having enough cash on hand each month to pay the obligations of the current and future months is extremely important.

Cash is needed for solvency. It is an ongoing management priority task to watch those incoming receivables and outgoing checks that must be written each month to cover salary and wages, taxes and social security, creditors, suppliers, and all other consumers of your cash. Having too much cash on hand indicates that you may have idle monies that need to be invested or that you have been borrowing more than you should.

Cash flow is regulating the flow of cash into and out of your business. It means juggling all facets of the business and managing inventory, lines of credit, and accounts receivable. Cash flow management allows the business principles to stay on budget targets, control spending, and manage growth. If your cash inflow exceeds your cash outflow, then you have positive cash flow. If your cash outflow exceeds your cash inflow, then you have negative cash flow. If a business has negative cash flow and is not able to borrow additional cash, it may soon be out of business entirely.

Negative cash flow may be the result of too much inventory, obsolete inventory, or simply poor collections on your accounts receivable. Managing your accounts receivable is imperative to managing your cash flow. One important tool is to stay on top of your outstanding accounts with regular calls to your customers. Often the squeaky wheel gets the cash. Be that wheel. Additionally, take a look at the type of customer accounts you have. Some of your customers will have seasonal highs and lows when it comes to their own cash. Don't have an imbalance that would result in customers with low cash reserves available just when you need yours the most.

Cash flow can be helped by stretching out and extending your payables. Often companies will take sixty or ninety days to pay their suppliers. This amounts to an interest-free loan. Be very careful not to abuse your vendors; you need them. Keep your inventories tight. Overstocking inventory levels can tie up large amounts of cash that are needed elsewhere in your business. Turn your inventory as often as possible. Calculate this by taking your cost of goods sold and dividing it by the average value of your inventory. This gives you your inventory turnover ratio. The higher this number is the better. Check the norms for your industry. Old stock that is not selling should be sold at cost to improve your cash flow and liquidity.

It is not difficult to manage your cash. To do so means that you must know when, where, and how your cash needs will occur. You must also have prepared in advance of any cash problem and where to look for new operating cash. This means arranging *in advance* any lines of credit or sources of cash you anticipate needing. To begin this process of managing your cash, you need cash flow projections. As a business owner or manager, you will need both short-term (weekly and monthly) and long-term (three to five years) cash flow projections.