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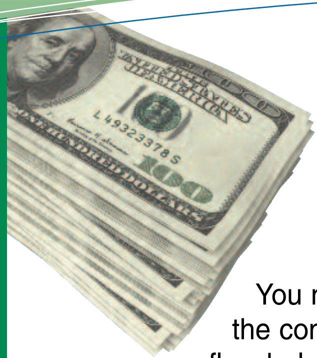

The Importance of Strong Cash Flow Management

By Jeffrey Wilke • Management/Coaching Consultant

You may have heard the phrase, “cash is king.” There s a reason for the common use of this expression in business. Without positive cash flow balances, businesses quickly fail because they can t pay the necessary bills to keep them in operation. Many business owners think in terms of profit instead of cash. It s important to realize that cash – not profit – is used to pay for expenses in the daily operation of the business. Profitable businesses can still fail when their monies are tied up in assets and cash isn t available to pay bills.

This fact stresses the importance of strong cash flow management by business professionals and becomes more critical during times of economic uncertainty. But you can take steps to better manage cash flow and prevent unnecessary cash problems. Here are some key areas and associated techniques to focus on when managing your cash flow:

General Cash Flow Management:

Prepare a cash flow budget by forecasting sales, cash receipts, expenditures and cash balances. Projections should be on a monthly basis for at least one year and include all anticipated variations in sales.

Use this budget to help ensure that there s enough cash on hand to meet the company s obligations. Always strive to reduce cost and waste throughout your business. Get employees involved and work to create a culture based on these principles.

Accounts Receivable:

Deposit payments and credit card receipts daily. Your main goal is to turn your receivables into cash as quickly as possible.

Entrepreneurs who sell on credit also need a strong collection program in place. Use customized credit applications to help screen customers before granting credit.

To speed up customer payments, invoices must be sent promptly. In addition, timely action should be taken when an account becomes past due.Print and monitor reports that reflect the aging of accounts receivable. Keep in mind that the older the receivables, the less chance you ll have collecting on them, resulting in decreased value and poor cash flow.