



# Cash Flow *Basics*

*Strategies and Insights to Control your Business*





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# Agenda

- 1. Definition of Cash Flow**
- 2. Importance of Cash Flow Management**
- 3. Preparing Budget/Projections**
- 4. Important Strategies**
- 5. Successful Management**



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# Money & Time



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# 1. What is Cash Flow?

*The movement of cash in and out of your business in the future.*





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Cash Inflows

## ***FUTURE Cash and Receipts***

- Payment for goods or services from your customers (Cash & A/R)
- Bank loan/investments
- Interest on savings and investments



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# Cash Outflows



## ***FUTURE Expenses and Payments (A/P)***

- Wages, rents and daily operating expenses
- Purchase of fixed assets - PCs, equipment, office furniture, etc.
- Purchase of raw materials, or tools
- Income tax, corporation tax, VAT and other taxes
- Loan repayment(s)



**CASH IS KING**





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## 2. Importance of Cash Flow Management

Ability to predict the amount of cash a company will need to **operate smoothly**.

- Generate future cash receipts
- Pay bills as they come due

*A company can be earning a profit and be forced to close because it runs out of cash!*





# 3. Preparing a Cash Budget

1. *Determine a Minimum Cash Balance*
2. Forecast **Sales**
3. Translation into **Cash Receipts (A/R)**
4. Forecast **Cash Disbursements (A/P)**
5. *Starting Cash Balance*
6. *Estimate Ending Cash Balance*



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# Minimum Cash Balance

1. Estimate average monthly expenses
2. Assume the worst case scenario
3. Have a few months reserve



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# Forecast Sales

***Process of estimating what your business' sales are going to be in the future.***

1. Analyze your company's current situation.
2. Look at past sales figures to predict future.
3. Consider productivity goals.



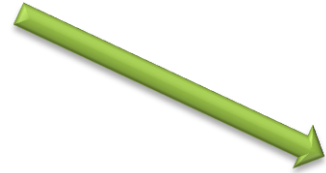
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Sales



Cash – NOW



Credit (A/R)– LATER

*Invoicing*

*Remember: A sales is not a sale  
until you receive the money.*



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# Forecast Cash Receipts (A/R)

Consider collection process for credit sales.

Track sales conversion of A/R into cash receipts.



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# Forecast Cash Disbursements (A/P)

- Expenses/bills with fixed amounts due on set dates. (Overhead).
- Variable expenses according to sales forecast.
- Include cushion, just in case.





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# Estimate End-Of-Month Cash Balance

Starting Cash Balance  
+ cash in (revenue)  
- cash out (expenses)  
**= Ending Cash Balance**



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# Gaps

Expenses may be due before you receive payment from customers.

Forecast potential cash flow problems and take steps to avoid them.



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# 5. Strategies

## Focused Areas:

- Internal Operations
- Accounts Receivables
- Accounts Payables
- Inventory



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# Internal Operations

- Bartering (trade)
- Trim overhead costs
  - Lease rather than buy
  - Buy used instead of new equipment
  - Avoid non-essential cash spending
  - Negotiate fixed loan payments to coincide with company's cash flow
  - Hire part time employees or use 1099 independent contractor
- Keep your business plan current



# Accounts Receivable

***A/R Goal: collect money as fast as you can.***

- Establish credit approval policy & adjust.
- Require deposits for work in progress.
- Offer discounts for paying early.
- Send invoices promptly.
- Develop a system of collecting accounts.
- When account becomes overdue, take action immediately!
- Add finance charges to overdue accounts (check the law first).



# Accounts Payable

- Stretch out payment times as long as possible.
- Verify all invoices before paying them.
- Take advantage of discounts.
- Negotiate the best possible terms with your suppliers.
- Schedule expenses to be due at different times.





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# Inventory

- Monitor it wisely.
- Negotiate quantity discounts with supplies when possible.
- Avoid “overbuying” (zero rate of return).
- Arrange for inventory deliveries at the latest possible date.



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# Invoicing

1. Definition
2. Create a system
3. Set Clear Terms
4. Build a Document Trail
5. Adapt to Customers' Preferences
6. Make Collections Calls



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## 6. Cash Management

**Cash flow management** is the process of monitoring, analyzing, and adjusting your business' cash flows.

**Avoid cash flow problems by developing and using strategies** that will maintain an adequate cash flow for your business.



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# Application Appointment

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