



Five Steps to Improve Your Business Cash Flow

By FocusCFO

We have all heard the saying “cash is king”. As a business owner, your biggest concern is always the cash balance of the company - you need to know that you will have enough cash on hand to meet your obligations.

In any business there are three sources of cash: the business owner/investors, your bank, and the daily operations of the company. The cash generated from the company’s operations is the area where the management team can have the most impact at the lowest cost. Managing all sources of cash is a critical function for your business; protecting the liquidity of the business is the key to the success and future growth of your company.

1. Rolling Cash Flow Projections

The first step is to develop rolling cash flow projections. These projections will inform the management team of the current cash balance and future cash requirements, which will allow the team to anticipate problems and develop solutions in advance of a cash crisis.

Sales forecasts for these projections must be based on the appropriate current and historical factors, and forecasts of cash inflow sources and cash needs must both be accurately analyzed as well. The projections must also be updated and refined continuously so that they gain accuracy.

2. Accounts Receivables

Accounts receivables should be analyzed to identify information that can be used to manage cash flow and to improve profitability. Several key metrics should be identified during this process; those metrics can be used to

drive management decisions that will have a significant impact on the cash flow and the bottom line of the company.

3. Inventory

Proper inventory management will be a key driver of business cash flow, and the process involves more than just measuring inventory turns. Several other key metrics should be analyzed that will provide critical information to include in the cash flow projections. The information will also help to drive the sales management process.

4. Accounts Payable

Accounts payable management can have a bigger than expected impact on cash flow. If accounts are properly categorized and prioritized based on their impact on operations and other factors, the company will have a greater ability to preserve cash. Analysis of accounts payable also provides valuable information to include in the cash flow projections as well as for the inventory management process.

5. Non-Core Assets

Accurate cash flow projections will enable the management team to identify core business operational functions as well as what actually drives the profitability of the company. Once this is determined, the team can begin to identify non-core assets that can be converted to cash, as well as functions that can be modified to positively impact cash flow.

Taking these steps to improve cash flow from operations must be done quickly and with accurate information so that you, as the business owner, understand your company's profitability by customer and product lines and can act quickly to protect the liquidity of the company and plan the future direction of the business. With positive cash flow and cash on hand, you can spend less time worrying about cash emergencies that may arise, and more time on strategic matters that affect business operations and your customers.

It is critical that the forecasting process is accurate and timely, and if the current staff is unable to perform this task effectively, then you may need to seek outside support. Cash flow analysis and projections require highly specialized skills. A professional CFO will manage these functions to maximize the cash flow of the business so that your company first becomes healthy, and then can grow to the next level and beyond.

Founded in 2001, FocusCFO is the leading onsite fractional CFO services provider in the Midwest and Southeast, with more than 100 CFOs and Area Presidents throughout Ohio, Michigan, Kentucky, Indiana, Pennsylvania, Tennessee, and North Carolina. FocusCFO works closely with small to medium sized businesses helping business owners gain control over three key financial and operational areas: increasing cash flow, reducing business risk, and creating a platform for scalable growth. This allows business owners to then realize full financial control and increased value in their businesses.