INVESTOR NEWSLETTER ISSUE N°5 FALL 2013

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Cash Flow Management

An underappreciated fundamental in financial planning.

You've probably heard the saying that "cash is king," and whether you own a business or not, it is a truth that applies. Most discussions of business and personal "financial planning" involve tomorrow's goals, but those goals may not be realized without attention to cash flow today.

Management of available cash flow is a key in any kind of financial planning. Ignore it, and you may inadvertently sabotage your efforts to grow your company or build personal wealth.

Cash flow statements are important for any small business. They can reveal so much to the owner(s) and/or CFO, because as they track inflows and outflows, they bring non-cash items and expenditures to light. They denote your sources and uses of cash, per month and per year. Income statements and P&L statements may provide inadequate clues about that, even though they help you forecast cash flow trends.

Cash flow statements can tell you what P&L statements won't. Are you profitable, but cash-poor? If your company is growing by leaps and bounds, that can happen. Are you personally taking too much cash out of the business and unintentionally letting your growth company morph into a lifestyle company? Are your receivables getting out of hand? Is inventory growth a concern? If you've arranged a loan, how much is your principal payment each month and to what degree is that eating up cash in your business? How much money are you spending on capital equipment?

A good CFS tracks your operating, investing and financing activities. Hopefully, the sum of these activities results in a positive number at the bottom of the CFS. If not, the business may need to change to survive.

In what ways can a small business improve cash flow management? There are some fairly simple ways to do it, and your CFS can typically identify the factors that may be sapping your cash flow. You may find that your suppliers or vendors are too costly; maybe you can negotiate (or even barter) with them. Like many companies, you may find your cash flow surges during some quarters or seasons of the year and wanes during others. What steps could you take to improve it outside of the peak season or quarter?

What kind of recurring, predictable sales can your business generate? You might want to work on the art of continuity sales – turning your customers into something like subscribers to your services. Perhaps price points need adjusting. As for lingering receivables, swiftly preparing and delivering invoices tends to speed up cash collection. Another way to get clients to pay faster: offer a slight discount if they pay up, say, within a week (and/or a slight penalty to those that don't). Think about asking for some cash up front, before you go to work for a client or customer (if you don't do this already).

While the Small Business Association states that only about 10% of entrepreneurs draw entirely on their credit cards for startup capital, there is still a temptation for an owner of a new venture to go out and get a high-limit business credit card. It might be better to shop for one with cash back possibilities or business rewards in mind. If your business isn't set up to receive credit card payments, consider it – the potential for added cash flow could render the processing fees utterly trivial.[1]

How can a household better its cash flow? One quick way to do it is to lessen or reduce your fixed expenses, specifically loan and rent payments. Another step is to impose a ceiling on your variable expenses (ranging from food to entertainment), and you may also save some money in separating some or all those expenses from credit card use. Refinancing – if you can do it – and downsizing can certainly help. There are many, many free cash flow statement tools online where you can track family inflows and outflows. (Your outflows may include bugaboos like long-term service contracts and installment payment plans.) Selling things you don't want can make you money in the short term; converting a hobby into an income source or business venture could help in the long term.

Better cash flow boosts your potential to reach your financial goals. A positive cash flow can contribute to investment, compounding, savings – all the good things that tend to happen when you pay yourself first.

Citations:1:smallbusinesscomputing.com/tipsforsmallbusiness/5-tips-for-a-smoother-small-business-cash-flow.html[11/19/12]

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