



THE WHITE PAPER

Strategies for Managing Your Assets

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Five Cash Management Tips for Small Businesses

Small businesses face the same cash flow issues that large businesses do, and many of the cash management practices employed by big companies also work for small businesses. There are a number of strategies and procedures that can help you smooth out cash flow and grow your business. Below are some tactics and cash management policies to help you better manage your company's cash flow.

Tip 1: Understand Your Cash Flows

Before taking steps to better manage your cash flow, you first need to understand it. What are your inflows and outflows? How flexible is the timing of each? As simple as this step sounds, surprisingly few small businesses take the time to map out a cash flow strategy. When putting together your annual budget, make sure to prepare a cash flow projection, which provides a month-by-month estimate of the amount of cash you are likely to need, any borrowing requirements you may have, or alternatively, the amount of excess cash that may be available for investment. When preparing your cash flow projection, remember to factor in payment delays, tax payments, and planned capital outlays.

Tip 2: Bill Promptly

One easy way to improve cash flow is to bill frequently. Rather than billing all accounts at the end of the month, send out bills as soon as they become payable. Over time this practice can produce significant savings in the form of reduced "float." Using payment incentives is another way to reduce collection time. Offering a 1% or 2% discount for payment within 10 days, for example, can provide sufficient incentive for many clients to pay quickly. If your average collection time is several months, an incentive plan can make a noticeable difference and more than pay for itself over time.

Tip 3: Follow Up on Receivables

Following up on unpaid receivables is just as important as following up on sales leads. If your default rate is 5% or more, you probably need to improve your bill follow-up procedures. A general rule of thumb is to rebill if unpaid after 30 days and send a late notice after 60 days. It's also a good idea to call the delinquent customer at this time. Persistence is critical in collecting unpaid bills. For problem accounts, consider using a collection agency. Collection agencies will usually charge a significant percentage of collected amounts, but they are more than willing to do the dirty work and often manage to collect on bills you might have written off as uncollectible.

Tip 4: Actively Manage Your Inventory

If your business involves maintaining an inventory, you are probably already aware of how much money goes into creating that inventory, but you may not realize how much money it's costing you to maintain. Money tied up in inventory is money that could be used for other reasons. Inventory management can be a complex affair, depending upon the nature of the product, customers, and distribution process. For a small business, it is important to monitor inventories on an ongoing basis and avoid maintaining inventories that exceed anticipated sales.

Tip 5: Take Advantage of Short-Term Financing

Many smaller businesses may be reluctant to use financing, preferring to rely on internal sources to fund temporary shortages in cash flow. But as your business grows bigger, this practice can put a stranglehold on growth and you may find yourself making excuses not to purchase that much-needed piece of equipment just for the sake of meeting day-to-day cash needs. In fact, establishing and using a line of credit is a wise move if you want to grow your business. It's a good idea to establish a line of credit early on, even if your business is small. Over time, you'll build up a relationship with your lender that may later accommodate more significant financing. And at today's low interest rates, short-term financing can be very affordable.

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