

## The Importance of a Cash Flow

A cash flow basically shows if you have enough cash in the bank account to cover expenses. Sounds simple, but you'd be surprised at how many people ignore this. There are two main reasons why this is an important report to review:

1. Businesses aren't realistic when it comes to predicting their income and expenses (they overestimate their income and underestimate their expenses), and
2. Companies don't see a cash shortage coming and they run out of money.

In order to keep track of your cash flow, it's as easy as setting it up in Excel. The idea is simple. On a realistic basis, enter how much money you will collect vs. how much money you expect to spend on expenses. The most important thing is to enter your estimated income and expenses for at least 3 months, but 6 months will give you better look into the future.

This report will give you the tool to plan ahead and look into the future. If you see your bank account going into the red in three months, you'll have plenty of time to do something about it.

Tips to keep your cash flow strong:

1. **Spend as little as possible.** This is especially important in the early days of your business, but it should apply in the long run as well. Before you make any purchases over \$50, ask yourself "Do I really need this?" If not, you can live without it.
2. **Cut expenses as much as possible.** Take a hard look at the expense rows on your cash flow. Is there anything you can find a cheaper deal on? Anything in there that isn't absolutely vital? Saving just a few dollars per month will really add up.
3. **Acknowledge that people don't always pay on time.** When planning your cash flow, always account for the fact that it usually takes people longer to pay you than you think. Make sure that your cash flow doesn't depend on certain invoices being paid on time. If it's dependent on a specific invoice being paid on time, make sure to communicate with the company at least four weeks before it's due to ensure that it will be paid on time.
4. **Don't buy hardware (or anything else) you don't truly need.** There's no need to buy new hardware if your current hardware is still working. Your cash flow can change quickly and it's better to be conservative.
5. **Be brutally realistic.** Always overestimate your expenses and underestimate your income. Your cash flow should always be a "worst-case scenario." If you know you can stay in business when things aren't going well, then you know you'll be in good shape if the best-case scenario occurs.
6. **Chase invoices the minute they're late.** It may sound harsh, but the minute that an invoice is late, call the company to inquire if the payment has been made. If a company thinks they can get away with late payment, then they'll put you behind all the other customers they have to pay.
7. **Update your cash flow regularly.** As time goes on, you'll realize that some of your predictions about income and expenses were wrong. When this happens, update those figures to make your cash flow realistic. It's recommended to update your cash flow monthly.

Professional Small Business Management can help you set up a cash flow and monitor this for you. If you would like more information, contact Kirsten Clark at 425.283.1540.