

Cash Flow: The Lifeblood of Every Small Business



Managing cash flow is the lifeblood of any small business, sometimes marking the difference between success and failure. Having ample cash on hand will ensure that suppliers, employees and others can be paid on time. It also allows companies to invest cash back into the business in order to generate additional revenue and profit.

Let's take a closer look at how cash flow management can affect small businesses and review how your business can take control of and better manage its cash flow immediately.

What is Cash Flow?

Cash flow is the movement of cash into or out of a business, usually measured during a specified period of time. Cash is king when it comes to the financial management of a growing company. At its simplest, cash flow management means matching outlays of cash with money owed to your business. The statement of a business' cash flow is often used to gauge overall financial performance.

Setting up for Proper Cash Flow Management

As a small business owner, you must keep a record of all payments, bank statements, and bills from all customer sales and vendor and supplier purchases, items received, and checks disbursed-including payroll. Bookkeeping may be mundane, but it is essential to keep track of the cash that is going in and out of the business.

Preparing accurate cash flow projections on a regular basis is one of the most important things a small business can do-alerting you to potential problems before they arise. Start your cash flow projection by adding cash on hand at the beginning of the period with other cash to be received from various sources. Then you must account for upcoming cash outlays like rent, inventory, salaries, benefits, taxes, office supplies, advertising, etc.

Better Manage Your Small Business Cash Flow

There are two key areas to analyze for better management of cash flow: receivables and payables.

Improving Receivables

If you got paid the instant you made a sale or provided a service, you would never have a cash flow problem. Unfortunately, this rarely happens, but you can still improve your cash flow by better managing your receivables.

Customers who owe your business money are referred to as debtors and an account receivable is created for each of them. Many small businesses discover they need to manage accounts receivable on a daily basis in order to stay on top of their cash flow. Because cash is such a vital asset to your business, you need to do everything possible to make sure your customers pay on time:

- Issue invoices promptly and follow up immediately if payments are slow in materializing

- Offer discounts to customers who pay their bills quickly
- Offer several different ways for your customers to pay you
- Track accounts receivable to identify and avoid slow-paying customers

Managing Payables

Expenses must be carefully watched when you are managing a growing company as strong sales growth can conceal underlying problems. If your expenses are growing faster than sales, or even if they are not, examine your payables (money owed) carefully and look for ways to better control them:

- Make payments on the last day they are due to retain use of your funds as long as possible
- Keep an eye on your sales and expenditure patterns, and selling and billing cycles
- Maintain good knowledge of your suppliers and understand who offers the best terms and pricing
- Manage and track your inventory so you don't purchase more or less than you need

So what is the Best Way to Take Control of Your Cash Flow Management?

You will find it much easier to use an accounting software solution like Sage Simply Accounting for managing all your financial records and your cash flow on a daily basis-the software does not require accounting know-how and can easily meet all your business needs. Remember, a company can close down because of cash shortage, even if the business is profitable. So look to Sage Simply Accounting to help improve your cash flow in the following ways:

- Quickly issue professional invoices with detailed and accurate information
- Reduce delinquent payments by offering more ways to electronically send and receive money
- Accept credit card payments online for easy, on-time payment
- Access cash projection and customer aged summary reports to understand what monies are owed to you and what your cash position looks like at any one time
- Easily track inventory to reduce waste and keep tabs on your inventory levels
- Establish a preferred suppliers list that identifies previous pricing for materials or goods purchased
- Forecast sales so you can plan ahead and be aware of customer buying patterns
- Pull information directly from most banks and quickly cross-reference every transaction

Let's look at each of the above in more detail:

Prompt Invoicing

Formalize your accounting processes with improved record keeping, and make better use of your time by using an accounting software solution that can automatically generate accurate invoices to improve your chances for on-time customer payments.

Use Sage Simply Accounting to issue professional looking invoices promptly and include details such as: type of service or product, purchase order number, correct invoice amount (in various currencies if needed), automatic sales tax calculations, and your business terms (including discount offers for early payment).

Send and Receive Payments Electronically

Every small business, and especially those in the retail sector, needs to establish what type of payment systems it should offer customers. Offering electronic payments is fast, accurate, and allows your business to experience fewer delinquent payments.

Sage Direct Payments, a productivity add-on which is seamlessly integrated into Sage Simply Accounting, provides a reliable, trusted system of accepting automatic pre-authorized debit payments from customers in a timely manner. And you can pay vendors electronically at the click of a button on the last day they are due to retain use of your funds as long as possible (while eliminating the need to purchase and print checks).

You can also accept online payments by using the free Sage Billing Boss invoicing tool. It allows you to send an invoice via email to a customer that includes a link for automatic payment.

Easily Accept Credit Card Payments

Accepting credit cards and debit cards is a popular way for small businesses to receive payments from customers and allows you to easily increase your business cash flow. Sage provides complete credit and debit card processing as a productivity add-on for all business types with a merchant account setup-allowing you to confidently accept credit cards through a secure payment service with card swipe readers.

Accurately Measure Cash Flow and Determine What is Owed to Your Business

An accurate cash flow projection can alert you to trouble well before it strikes. Use Sage Simply Accounting to prepare a cash flow projection-a report summarizing the bills that will be coming due in the future as well as money you should be receiving from customers and other sources-to show how your cash account balance will be affected from a specified date for a specified period of time.

You'll quickly be able to view your current account balance, the balance at the end of the period, and the lowest and highest account balance during the period. Pay particular attention to the lowest balance figure-if this number is a negative number, you could potentially overdraw your account.

Sage Simply Accounting also allows you to track accounts receivable to identify and avoid slow-paying customers. Use the Customer Aged Summary report to display the total, current, and aged amounts that selected customers still owe you.

Improve Inventory Management

Holding more, or less, inventory than you need costs your business money, so plan ahead and be aware of customer buying patterns. You can improve your cash flow, reduce waste and generate profitability reports with inventory management capabilities from Sage Simply Accounting.

A well-organized list of inventory and service items makes it easy to keep track of the items you are purchasing and selling. Sage Simply Accounting provides two ways to track your inventory: Average Cost and First In First Out (FIFO).

Better Manage Suppliers and Vendors

You could get a better deal if you shop around and negotiate longer credit terms and volume discounts with your suppliers. This gives you more breathing room and spare cash to reinvest in your business.

Sage Simply Accounting allows you to easily review the last price paid to suppliers and helps you create a preferred vendors list so you can ensure you are always purchasing from the lowest cost provider.

Forecast Sales for Increased Business Visibility

Gain a better understanding of your customers, projects and overall business with in-depth sales analysis and forecasting options. Forecasting sales allows you make predictions about future revenue and cash flow, and to review “what if” scenarios to help you make better business decisions. Having access to accurate and up-to-date information can make a big difference to the bottom line.

The Sage Simply Accounting sales forecast report allows you to view projections month-by-month over a specified period. Using a simple moving average model for its forecasting calculations, Sage Simply Accounting produces good quality results for short-range time periods.

Perform Bank Reconciliations On-the-Fly

Reconciling your bank account is a critical accounting task that your business should carry out as frequently as weekly if you have heavy volumes of transactions, or once or twice each month if you experience lower volumes.

Doing so not only helps ensure the integrity of your financial reports but allows you to accurately reflect your cash position on a regular basis. Sage Simply Accounting allows you to pull online information directly from most banks and quickly cross-reference every transaction to highlight and resolve any discrepancies immediately.

More about Sage Simply Accounting

A respected software tool that helps you manage and stay in control of your cash flow, Sage Simply Accounting is the right choice for your small business. This feature-packed and easy-to-use software allows you to manage all your financial records, including invoicing and billing, in the language of your choice—easily switching between English and Spanish. It keeps your financial affairs in compliance with a full-time audit trail and automatic in-house payroll and sales tax calculations—all while keeping your costs in check. And Sage Simply Accounting allows you to do what you do best, run your business knowing you have access to a diverse line of accounting options as your business changes and grows.

Sage Simply Accounting

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Sage
2325 Dulles Corner Blvd
Suite 800
Herndon, VA 20171

800-368-2405
www.SageNorthAmerica.com

