# A Guide to
# Cash Flow Management for Successful Businesses

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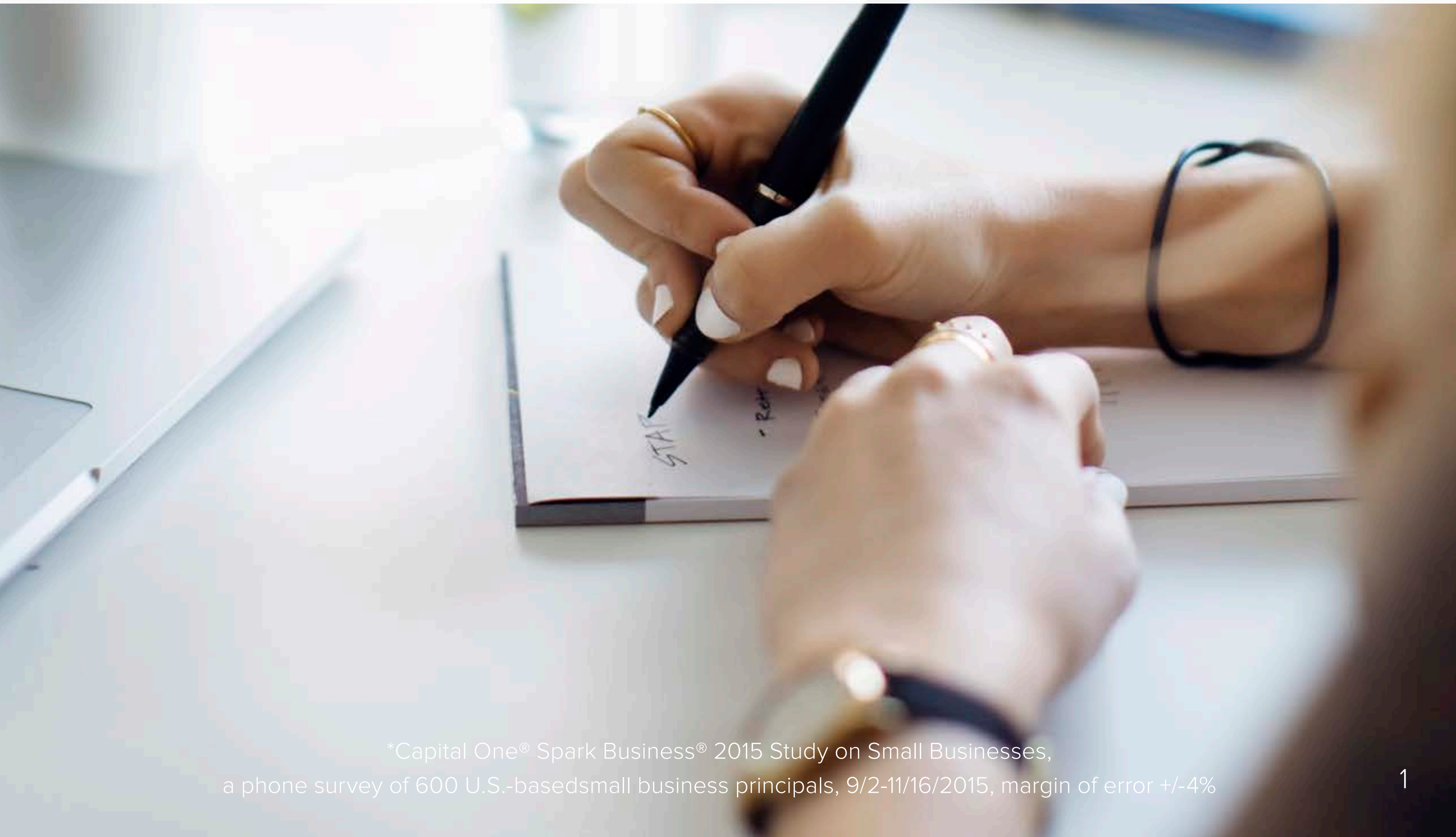
# What You Need to Know About **Cash Flow**

Effective cash flow management is key for running a company successfully. From small start-ups to well-established enterprises, any business may face a cash shortage or surplus from time to time.

However, our recent Capital One® Spark Business® phone survey found that managing cash flow is actually an ongoing challenge for many independent business owners. In particular, our survey participants said that collecting payments can be problematic–a surefire way for a company to come up short on cash. Take advantage of this Cash Flow Management Guide to thrive in the business landscape where cash is king.



*Capital One® Spark Business® 2015 Study on Small Businesses,
a phone survey of 600 U.S.-basedsmall business principals, 9/2-11/16/2015, margin of error +/-4%

# Cash Flow Tips and Strategies

Consider these tips and strategies to keep your funds flowing and your business on a path to growth.

## Revisit Your Projections

Maintain a forecast of expected cash inflows and outflows to avoid any potential issues. And, for accuracy, revisit these projections periodically to challenge your assumptions. Here are some variable factors that may throw off your cash flow calculations:

- **Timing of payments:** Do your projections reflect when payments will actually come in? If your customers are taking longer to pay (as our survey showed), consider adjusting your forecast accordingly. Consider pushing back your own payments to suppliers to compensate.

- **Revenue deductions:** If you sell a product, your actual vs. projected revenue may vary based on the channel through which you sell it. For example, selling through a distributor may result in lower revenue (higher fees) than selling directly. Keep your cash flow projections on point by taking into account any deductions from third-party sellers.

- **Inventory and supply chain costs:** You can project your cost of goods by guesstimating your likely inventory and supply needs. But you can't predict ahead of time exactly what customers will order and when. To avoid over-investing in inventory, simply factor in the occasional extra cost of expediting shipments from suppliers. That way, you'll be prepared to meet unexpected demand without overstocking on products. You may even consider negotiating with suppliers to have them hold an inventory cushion for you during key times like a predictable busy season.

- **Be proactive about collecting payments:** Slow payments compromise cash flow and can cause businesses to come up short on funds. Proactively encourage payments that are due to ensure delivery of the cash you're owed. Our survey revealed that collecting payments poses a challenge for a quarter of all businesses–so it's all the more important that your company assertively keep up with receivables.

## Best Practices to Accelerate Your Cash Cycle

- [ ] Invoice promptly
- [ ] Ensure invoice accuracy to avoid a payment delay
- [ ] Accept as many forms of payment as possible
- [ ] Require up-front payment for orders or projects with significant up-front costs
- [ ] Offer early-pay discounts
- [ ] Consider automated billing solutions to help you flag late payments or send reminders
- [ ] Address late payments quickly

**Put any excess cash to work:** It's smart to have cash saved up for unexpected costs or incoming payment delays. However, having too much cash could mean missed opportunities. You want to make your money work advantageously for you to cut costs or fuel the growth of your business.

For instance, you may be eligible for substantial discounts when you pay your suppliers early. Or, you may have a short-term investment opportunity you should consider. Keep close track of your cash position, so you'll have the just the right amount of cushion and then consider ways to invest your extra cash to maximize returns.

# How Your Prospect Pipeline Can Predict Sales

For businesses with longer sales cycles, it's smart to study your future sales pipeline and analyze how prospects may move through it. This can help you stabilize your cash flow so you can avoid feast-or-famine situations. Plus, you can identify bottlenecks in your sales process to ensure funds are flowing freely throughout the business cycle.

Here's how prospective customers funnel through the sales process, accelerating cash flow as buyer interest becomes a profit-generating purchase.

## Follow These 4 Steps to Predict Sales

1. Divide your potential customer base into a few groups, from least to most engaged. For instance, you might group them into three categories: prospects, leads and hot leads.

2. Assess the percentage of people in each of these segments that you expect to move from one stage to the next in a given period, like a month or a quarter.

3. Based on past sales performance, make a realistic assessment of the likelihood of prospects moving through the funnel to become customers. Use assumptions around these odds to project cash flow for 6 months.

4. Finally, estimate the cost to elevate your pipeline at each stage along with the extra revenue you'd expect from those accelerated sales. This will help you determine whether you should invest cash for a faster return.

# Telltale Signs a Cash Crunch May be Coming

An important part of cash flow management is the ability to head off cash flow crunches before they hit. Be on the lookout for these scenarios to prevent a shortfall:

### 1. Your operations team is busy, but your sales team is not.

A busy production or service side of the house can cloak an impending cash flow slowdown. When you are working at full capacity, cash flow may seem a distant problem. Yet you may feel the slowdown in activity or results later on, when you don't expect it. Opt for regular updates with your sales team to catch potential problems early.

### 2. Prospects are not buying.

Hearing "no" is an inevitable part of sales. But if prospective customers are consistently putting off meetings, not interested in phone calls or otherwise not making you a priority, it may be a sign that you are out of step with market needs. Perhaps your offerings need to be retooled or your marketing approach refreshed to help you regain ground you may have lost to competitors.

### 3. More of your revenue comes from the same customers.

While it is common for a significant portion of sales to come from a core group of customers, a narrowing base can be a red flag—it means each of those customers is more critical to cash flow. This may be particularly relevant to companies with project-based work or those that sell large, high-value orders (for example, technology resellers). A change in a key customer's financial circumstances could pose a significant threat to your revenue and cash flow. If a great share of your revenue is coming from few customers, consider stepping up your efforts to bring in new business.

### 4. You find you are starting to take on more debt.

Debt financing can be a valuable tool to enable investment for growth, but you must manage it effectively, understand that it has a cost, and be able to pay it back within the terms of your agreements.

If you find that you are increasingly reliant on debt, if you use it in situations where you didn't need it before, or if you are unable to make more than the minimum payment for an extended period of time, it is time to take a closer look.

# Good Luck!

This guide can give you a sense of what you should look for when you manage the flow of your funds. That said, you may want to consult with an expert accountant who can analyze and project data according to your unique business needs. Based on our survey, we do recommend that you boost your cash flow by being proactive about collecting payments from customers.

When you keep enough cash on hand, you help ensure the success and sustained growth of your business. That's why the savviest business owners take the time to study their cash management practices from time to time. While crunching figures may not be the most exciting part of managing your business, it's an important priority to reduce your risks and maximize your return on investment.