# Using the tools in your toolbelt to improve cash flow

Janeen Stodulski, MBA, CPA, CGA
Partner, MNP – EASE Service Line

OWN THE FUTURE

# About this session

This session is intended for anyone managing their ***own*** business finances

If you are managing books on behalf of a client, the following cash flow related content is for you:

**For Accountants: How to Help Your Small Business Clients Maximize Cashflow**
December 10
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# Today's speaker

Janeen Stodulski, MBA, CPA, CGA
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There is a famous saying that “Cash is king”. It is right up there with “A tree begins with a seed” and “The smarter you are the less you speak,” as one of those universally understood phrases that seems to exist across every language of the world and people of every background.


CASH FLOW

# Why cash flow is so important

When it comes to the financial management of any business, its often said that **Cash Is King**!

Whether your business is growing or struggling, managing your cash flow effectively is absolutely essential, and for many, its the key to business survival.

You've probably heard the statistic that over 80% of businesses that fail are still profitable, but just ran out of cash.


Revenue is vanity.
Profit is sanity.
Cash is reality.

Greg Savage

# Profit does not equal to good cash flow

In fact, more businesses go bankrupt due to a lack of Cash Flow than for any other reason. If you can grasp the difference between Profit and Cash Flow and become a master at finding and keeping cash in your business, success will be inevitable.

You can’t just look at your profit and loss statement (P&L) and get a grip on your cash flow. Many other financial figures feed into factoring your cash flow, including accounts receivable, inventory, accounts payable, capital expenditures, and taxation.

Effective cash flow management requires a laser focus on each of these drivers of cash, in addition to your profit or loss. Rules of accounting define Profit simply as revenue minus expenses. However, a smart business owner understand the fact that whether you earned a profit is not the same as knowing what happened to your cash.

# Important cash flow basics

So, what is cash flow?

It's basically the movement of funds in and out of your business. Typically, businesses track cash flow either weekly, monthly or quarterly. There are essentially two kinds of cash flows:

## Positive cash flow:

- This occurs when the cash entering into your business from sales, accounts receivable, etc. is more than the amount of the cash leaving your businesses through accounts payable, monthly expenses, employee salaries, etc.

## Negative cash flow:

- This occurs when your outflow of cash is greater than your incoming cash. This generally means trouble for a business, but there are steps you can take to fix the negative cash flow problem and get into positive zone.

# 10 Deadly Cashflow Mistakes That Can Kill Your Business!

**Small business owners are often overloaded with tons of activities revolving around their business, and they have very little time left for managing cash flows or scratching their heads on company's finances. On the other hand, mismanaging your company's funds might lead to total failure of your business.**

**Even though you have the brightest of ideas and your company is on the growth ride from the very first day, it is often seen that 80% of the businesses, big or small, fail or close down, just because they cannot manage their cash flows.**

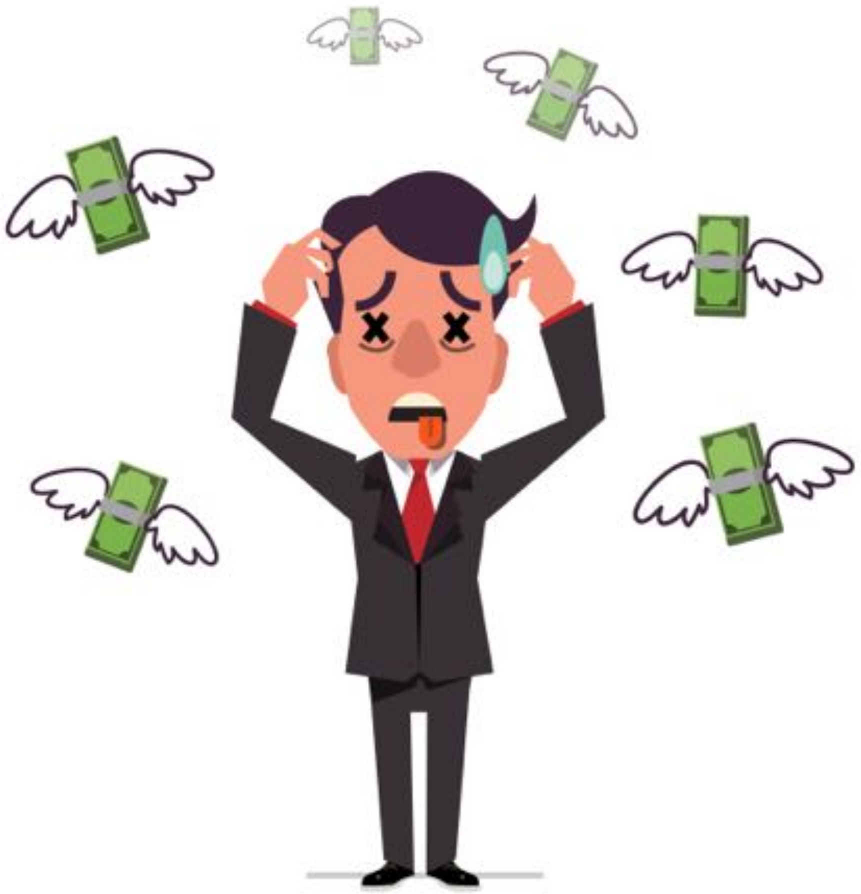
# Deadly cash flow mistakes

1. Forced growth
2. Spending too much on sales
3. Incorrect calculation of profitability
4. Ignoring seasonal nature of the business
5. Sleeping over late payments or overdue amounts
6. Improper management of taxes
7. Not preparing in advance for acts of God
8. Ignoring credit score
9. Cost of bad hiring
10. Miscellaneous hidden costs

“I think I just solved my cash flow problem.”

# How do I identify cash flow risks in my business?

How much money did your company make last year?



If there was ever a complicated question disguised as a simple one, that's it. For small business owners, it's not just a matter of making small talk — it's the foundation on which you're building a business.

The time delay between the time you have to pay your suppliers the time you receive money from your customers is the problem, and the solution is cash flow management.

# How do I identify cashflow risks to my business?

Keep on eye on the areas of your business and it will help you to quickly work out where you could be managing your cashflow better

1. Budget, budget, budget
2. Monitor profit margins
3. Order stock as you need it
4. Enforce your invoice terms
5. Smooth out seasonal demand
6. Always have a Plan B
7. Find out your breakeven point
8. You can’t control what you don’t measure

# Key points about cash flow

- Regardless of your Profit Margin, cash coming in must exceed the cash going out at any point in time.
- You cannot take profit to the bank and save or spend it. Profit is meaningless unless it is accompanied by underlying positive Cash Flow.
- Increasing sales will not improve a Cash Flow shortage if the increase in revenue is cancelled out by greater spending to achieve the increase in sales.
- Discounting is bad for your Cash Flow – it rarely has the desired effect.
- **Failure to price your product or service correctly.** You must clearly define your pricing strategy. You can be the cheapest or you can be the best, but if you try to do both, you'll fail.
- No one pays without an invoice, and until you get paid, you are out of pocket for the invoice amount, your time and the cost of the materials. Forgetting to invoice is a little bit like wanting to go out on a date but never bothering to ask.

# How to fix a cash flow problem in your business – 5 tips

## 1) Short-term financing

Short-term financing such as a line of credit can be used to make emergency purchases or to bridge the gap between payables and receivables. Many banks issue business credit cards that you can use to pay your vendors.

## 2) Long-term financing

Large asset purchases such as equipment and real estate should usually be financed with long-term loans rather than with your working capital. This allows you to spread the payments over the average life of the assets. You'll be paying interest, but you'll have preserved your working capital for business operations.

# How to fix a cash flow problem in your business – 5 tips

## 3) Speed up recovery of Receivables

Bill early, collect quickly. To guard against late payments, bill as early as possible and make those invoices as clear and as detailed as possible. It may also be worth changing other billing practices such as invoice frequency. Instead of waiting until the end of the month, generate an invoice as soon as the goods or services are delivered.

For big orders, you may want to consider progressive invoicing while you manufacture the goods or deliver the service. For example, you can ask for a deposit with the order and then a percentage of the payment at various agreed upon milestones.

Also, make it as easy as possible for your customers to pay you. For example, you can add a payment link on your invoice so that your customers can pay using credit card. Check out how you can do this with QBO

# How to fix a cash flow problem in your business – 5 tips

## 4) Liquidate cash tied up with Assets

Do you have equipment you no longer use or inventory that's becoming obsolete?

Consider selling it to generate quick cash. Idle, obsolete, and non-working equipment takes up space and ties up capital which might be used more productively. Equipment that has been owned for a longer period will usually have a book value equal to its salvage value or less, so a sale might result in a taxable gain. This gain should be reported on your tax filings. If you have to sell below the book value, however, you will incur a tax loss, which can be used to offset other profits of the company.

Excess inventory can quickly become obsolete and worthless as customer requirements change and new materials are introduced. Consider selling any inventory which is unlikely to be used over the next 12 months unless the costs to retain it are minimal and the proceeds from a sale would be negligible.

# How to fix a cash flow problem in your business – 5 tips


## 5) Delay your Payables

This may sound obvious but it's often neglected. Unless there's a worthwhile incentive for you to pay early, figure out how late you can pay your vendors without risking late fees or harming your relationship. This keeps the cash in your account and out of your vendor's until it absolutely has to be there.

# Best practices for managing a healthy cash flow

1) **Identify business risks & prepare in advance**

   There are many risks involved in running a business, and serious challenges should be expected at some point in the future. You need to consider a number of scenarios such as “What if that big order suddenly comes in?”; “What if a big order is cancelled?” or “What if that important client goes missing while still owing me money?” This kind of risk analysis can become part of your cash flow budgeting process.

2) **Create separate bank & credit card accounts for your business**

3) **Monitor your inventory efficiently**

   Analyze inventory movement to determine which items are selling and which ones are duds that soak up your working capital. Try to keep inventory levels lean so that your working capital isn’t tied-up unproductively and unprofitably.

# Best practices for managing a healthy cash flow


## 4) Always keep buffer money

Once you find out the breakeven point as discussed earlier, you must ensure your business has enough cash to fund your working capital needs. It's advised to keep three months worth of outgoings in the bank for a rainy day. That may be a thing of the past, but if that's the case with you, make sure you have a buffer of some sort, either personal funds available or an overdraft or revolving credit facility.

# Best practices for managing a healthy cash flow

## 5) Implement better system to manage cash flow

Many in business procrastinate to invoice customers. Some do not invoice as soon as they deliver the product or services or do it just at the month end. Many do not even know how much is owed to them by their customers or how much they owe to suppliers.

If you are one of them, it's time to start implementing an efficient process to manage cash flow.  Such as QBO and things such as Stripe or CC online in QBO or PAP from software like Plooto or Waypay.

# Best practices for managing a healthy cash flow


### 6) Cut costs, control cash outflows

Best way to control cash flow is to stay on top of your expenses. When we start making profits, we often tend to ignore the cost cutting opportunities. Unmanaged outflow could be a silent business killer.

# Best practices for managing a healthy cash flow

## 7) Keep your cash growing

Collect interest, don't pay interest. Have you ever added up how much you pay in interest or late fees?

Or alternatively if you have a surplus cash, is it making you all it can make you?

Did you get an equipment loan or did you use the operating line of credit and now are cash constrained on your regular cashflow? If so – refinance it properly.

# Best practices for managing a healthy cash flow

## 8) Do not focus on profit, focus on cash flow

Agnes Cserhati of AC Power coaching estimates that 90% of the SMEs she works with do not have a cash flow plan from day one, despite having forecasts of profit margins for years ahead. She says this is a common reason for early business failure.

“If your cash flow is in order, your profit will be in order,” she says. “A lot of businesses do not make it past six months. They might have been a profitable business eventually, but they need to have good cash flow to survive.”

She also encourages young businesses to work with reliable, quick-paying clients initially, even if it means smaller clients and slimmer profits margins.

# Best practices for managing a healthy cash flow

Small business owners usually learn one principle early in the life – **"Cash is king".** Building and keeping an adequate stockpile of cash provides maximum opportunity and flexibility to any business while enabling its owners to sleep soundly at night.

Without cash, profits are meaningless. Many a profitable business on paper has ended up in bankruptcy because the amount of cash coming in doesn't compare with the amount of cash going out. Businesses that don't exercise good cash management may not be able to make the investments needed to compete, or they may have to pay more to borrow money to function.

# The tools out there to help you manage cash flow

Now that we learned what to look for and why, what tools can we use to make it easier – "Technology"

Inuit QuickBooks Payments- Get Paid Faster

Cashflow tool.com- Simplest and most powerful cash flow forecasting tool

Chat.ai - Easy-to-use reporting, analytics & cash flow forecasting for your business data

QBO APP Centre

WayPay Business to Business Payments and Accounts Payable Solutions

Wagepoint - Payroll automation Simplified for Small business

CollBox- Stop Writing off Bad Debt

Plooto - Run AR/ AP from Anywhere, Anytime, Remote Approvals

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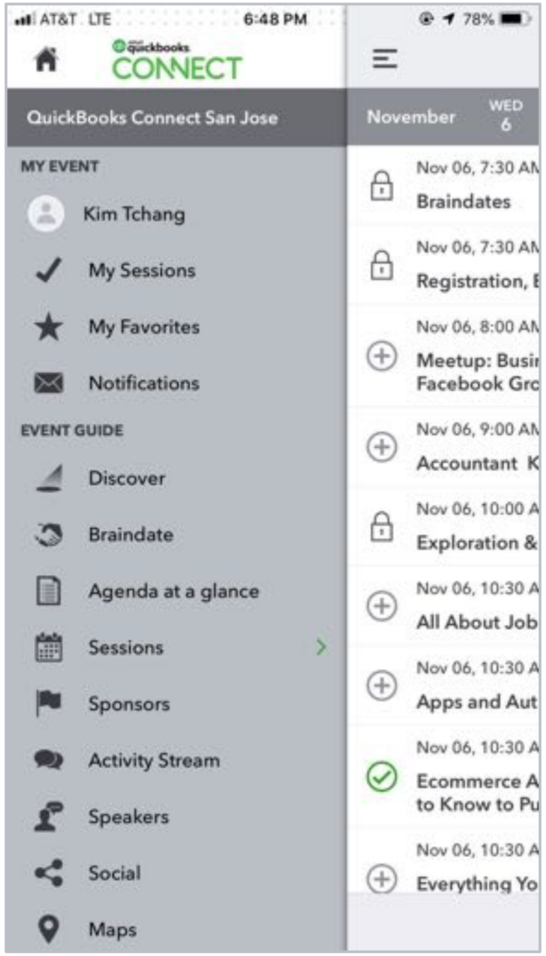


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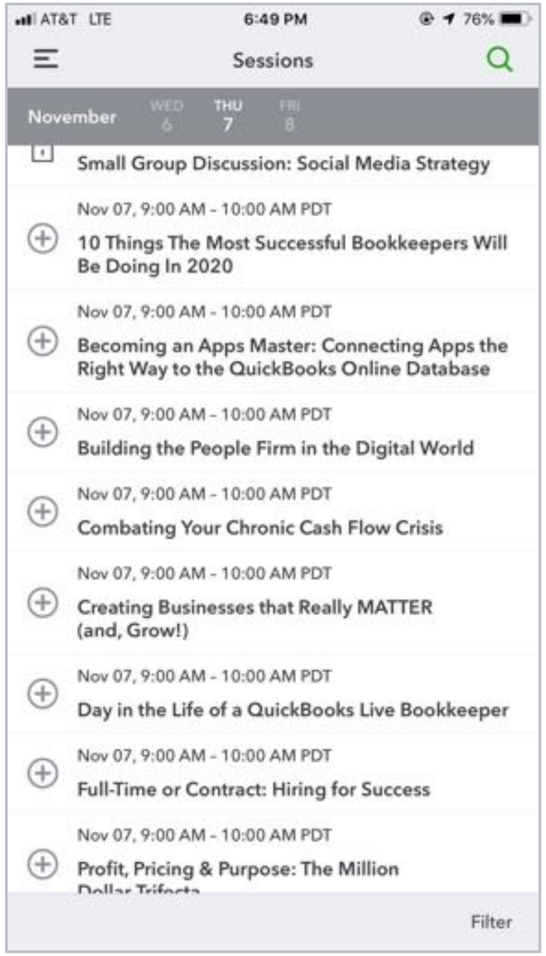


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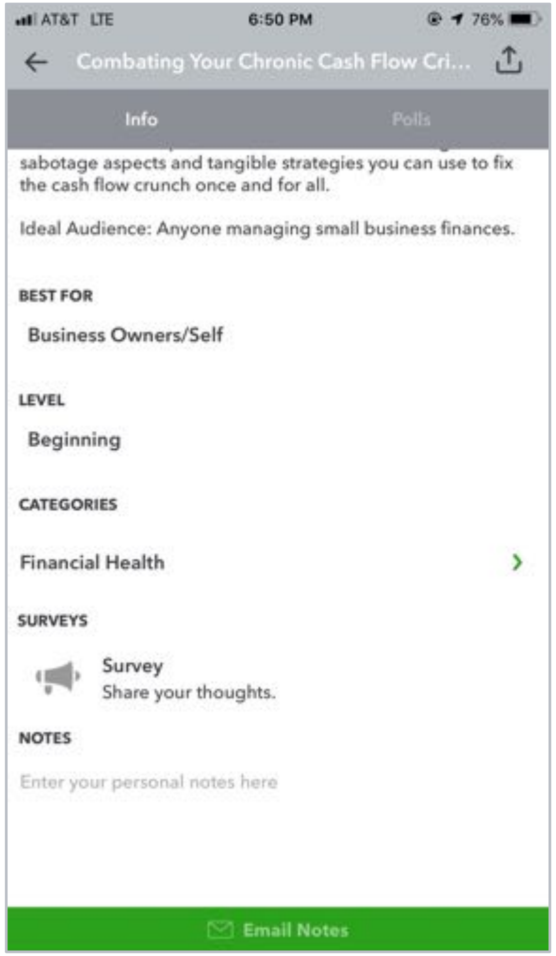


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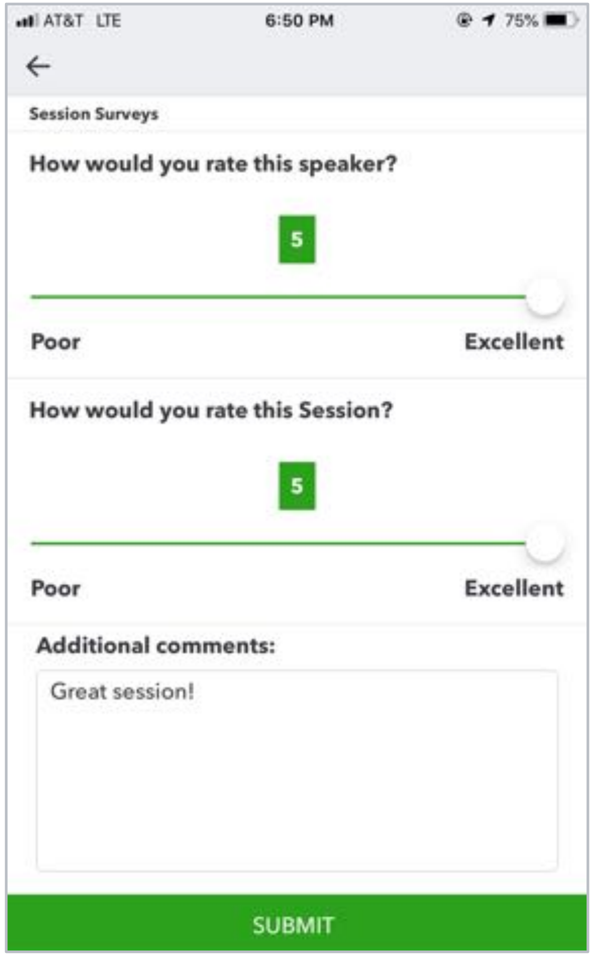

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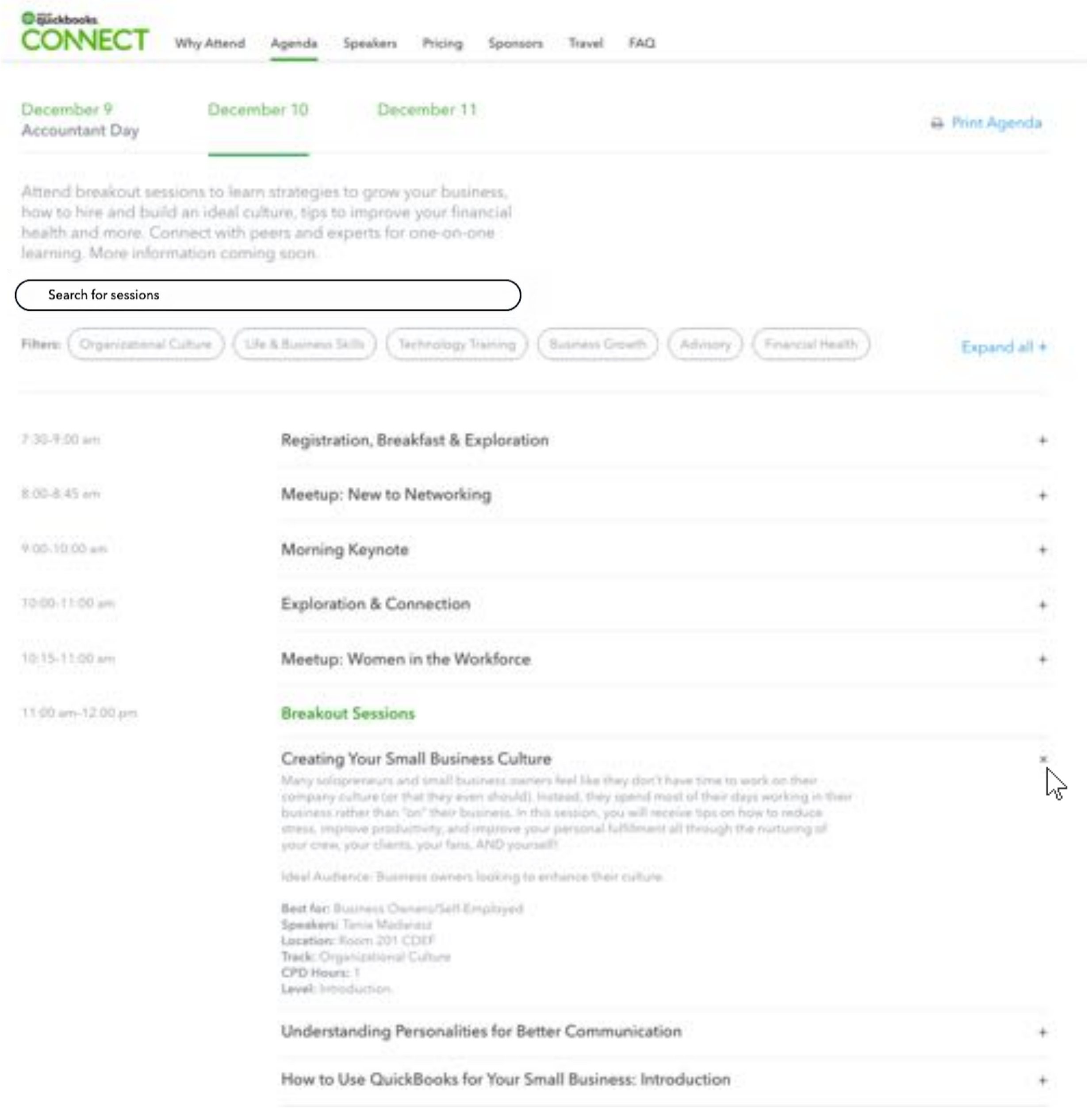

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