Managing Money • Cash Flow

5 THINGS TO REMEMBER WHEN PLANNING CASH FLOW

While no business owner plans to fail, not planning cash flow could mean you're setting your company up to do just that.

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The cash flow gods can be cruel. One minute, you have plenty in the bank, and the next you realize that all is not what it seems: You didn't plan on your vendor going out of business or that port strike or that surge in sales, or or or... That's why planning cash flow is so crucial.

If you're looking for better methods for planning cash flow, you may want to keep the following in mind.

1. Assume nothing.

Daniel Feiman owns Redondo Beach, California-based consulting firm Build It Backwards, but he used to work in commercial banking.

According to Feiman, too many business owners make assumptions that can wreck their cash flow. Do not, he says, assume…
“…that you will collect your accounts receivable on as-agreed terms."
“…that everyone will pay your prices."
“…that your costs won't go up."
“…that your costs will not go up faster than you can raise prices."

Often we figure that once we have an idea in our mind, it'll happen. But if there is no Plan B, then the trouble can start.

2. Put aside cash for a rainy day.

It's not enough to have a cash reserve for the rainy, potentially emergency-prone days. When it comes to planning cash flow, the sunny days can be problematic, too.

“I had a manufacturing client when I was a commercial banker who worked for years to secure an order from [a big brand name department store] for his products," Feiman says. “Once he did, he thought he had hit the jackpot and was set for success."

And he might have been, Feiman adds. The problem?

“He had to lay out so much cash to build the product, pay his suppliers and operating costs before he received payment that he ran out of cash and went bankrupt," he says. "He sold himself broke!"

3. Be willing to consider going into debt when planning cash flow.

Some business owners hate debt and manage to avoid it. If you can do that without negative consequences, that's terrific.

Still, Elizabeth Canon, the CEO of Zena Financial Services, a commercial lender in Chula Vista, California, makes a good case for being willing to take out loans to make some parts of a business run more effectively.

“Many of the customers I have spoken with over the years have had the problem of cash flow," she says. “The biggest mistake I see business owners make is to use all of their capital to purchase equipment, because they have been lead to believe that it is always better to own

equipment outright, which makes sense because that is how we are told to handle our personal finances. Cash is king."
But it doesn't always work out for business owners to buy all of their equipment outright, according to Canon.

“I can't recall how many people have reached out, desperate to pull some equity from equipment they have already purchased, because now they are low on cash," she says. "It is possible but depending on the age and type of the equipment, [sometimes] equity either can't be pulled, or now the equipment has been used, and is therefore subjected to higher rates than if they would have financed it as new. It's the same idea as financing a car. You can get .09 percent on a brand new car but generally not less than 2.99 percent on financing a used car."

For most businesses, “capital should be used to pay for intangibles, such as payroll, inventory and marketing," Canon says. "The rest can be financed, and the good news is that there are some important benefits to financing business equipment."

Benefits such as? Tax write-offs, Canon says, and you can build up your business credit. This can mean being able to get even better lending terms in the future—all of which can help with planning cash flow. (It probably won't hurt it, anyway.)

4. Make sure your cash-flow forecast is continually updated.

Paola Garcia is a small-business adviser at Excelsior Growth Fund, a New York state nonprofit lender. She suggests monitoring your cash flow and contrasting it with what your predictions were,

"As your business changes," Garcia says, "what worked three to six months ago may no longer be adequate."

As for what type of data you should be collecting and as for what you should be updating, Feiman recommends forecasting your profit and losses, your balance sheet and your cash-flow statement.]

5. Have a backup plan.

This may be one of the most important strategies you can have when planning cash flow. What do you do when something goes wrong? Businesses that don't have this figured out can really run into trouble when there's a cash-flow crisis.

Linda Worton Jackson is a corporate and bankruptcy attorney and partner with Pardo Jackson Gainsburg, a business law firm in Miami, Florida.

She says that it would behoove every business owner to have the type of relationship with a lender so that if trouble comes, you already have approval for a loan. But that takes time.

“Don't just run to the bank on the corner because it's convenient," she says. “Talk to your accountant or attorney about the type of loan that might be right for your business, taking into account the cash flow and nature of the business. Consider whether a term loan, line of credit, factoring arrangement, equity infusion or some combination of the above may be the right move."

There are many types of lenders out there. It may be a good idea to find one that has experience lending to businesses in your industry, Jackson adds.

Garcia agrees.

“It's essential to prepare for financing well before you need it," she says. “Lack of planning can lead you to high-cost financing and result in missed opportunities, or even cause cash-flow issues due to high-interest debts with unreasonable and unmanageable repayment terms." Your business, Garcia says, needs to be “loan ready."

Which, if you think about it, is another way of saying that you're ready for whatever the cash-flow gods want to throw at you.

That's the thing about planning cash flow. If you do it right, it can put your business in a stronger and more knowledgeable position. It's hard to be surprised when you know what's coming.

Maybe cash-flow planning seems pessimistic because you're assuming that trouble lies ahead. But actually, it's a form of optimism. You are planning for the worst, but only so your company can be at its best.

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