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How To Achieve And Maintain A Positive Cash Flow

Real-World Strategies For Effective
Management Of Business Cash Flow

Whitepaper Brought to You By Balboa Capital





Not having enough cash on hand is detrimental to any business. A company can survive for only so long with a dwindling cash flow, and without proper management, the business can ultimately end up failing. Despite the major risks of mismanaged cash, many business owners today do not fully understand how to monitor and manage their cash flow, or get it in order.

As a business owner, you know that cash flow is one of the most critical aspects of success. Not only is it needed for your business to survive, but successful cash management puts you in the best position to invest in things like new equipment and technology and expansion projects that can help you stay competitive for years to come.

The following guide will help you understand the basics of cash flow, how it impacts your business, and what you can do to achieve and maintain a healthy cash flow.

Cash Flow 101

Cash flow is the money that is moving in and out of your business over a given period of time. Specifically, cash flow is the difference in the amount of cash available at the beginning of a period and the amount at the end of that period. You can measure your cash flow on a monthly, quarterly, and yearly basis.

If the amount of cash available at the end of the period is higher than the amount of cash that was originally available, this is considered a positive cash flow. Inversely, if the amount of cash available at the end of the period is lower than the amount of cash that was originally available, this is considered a negative cash flow.

Calculating Cash Flow

Calculating cash flow is easy. It is simply a matter of subtracting your monthly ending balance from your starting balance. Below is an example of a cash-flow calculation for a small business that generated \$100,000 in one month.

Starting Cash: \$100,000	
Cash In:	
Sales:	\$100,000
Receivables:	\$40,000
Other:	\$10,000
Total Cash In:	\$150,000
Cash Out:	
Payroll:	\$40,000
Rent:	\$10,000
Supplies:	\$30,000
Total Cash Out:	\$80,000
Ending Cash:	\$170,000
Cash Flow Change:	\$70,000

Tips To Improve Your Cash Flow

As mentioned earlier, cash plays a crucial role in the success of your business. The way it is managed can boost your business' growth or lead to its potential failure. Therefore, understanding how best to manage your cash flow keeps your business in the best shape to achieve your financial goals. Following are tips for improving and maintaining a positive cash flow for your business.

Bill Immediately

Maximizing your cash flow begins with having an efficient billing system in place. It is important that you invoice products and projects as soon as they are shipped or completed. The sooner your customer receives the invoice, the sooner it gets into the payment process. Your invoice is the first request for payment and should therefore accurately list all information needed to expedite payment.

If your process for invoicing customers isn't timely and efficient, it can have an adverse affect on how quickly you collect receivables. Accounting software can help streamline your billing process and better manage your accounts payable, inventory, and payroll.



Tips To Improve Your Cash Flow (cont.)

Collect Promptly

As you know, slow payers can create a tremendous burden on your billing department... and your business finances. By closely managing your collection processes, you can decrease the amount of time it takes for your receivables to be paid. Monitoring your accounts receivable, and contacting your customers when needed, can help get them to pay on time, or even early. There are several ways to help improve the rate in which you collect and process receivables.

Get a Deposit Up Front

For all products or projects, collect a down payment so that you get a portion of the cash up front. This will help reduce the risk of nonpayment since partial payment has already been realized.

Implement Discount Incentives

Offer incentives to speed up payment to customers who pay early. For example, provide a 2% - 5% discount for Net 10 or Net 15 payment, depending on the size of the transaction. This is a great way to reward valuable customers as well as get cash flowing

in quickly. To help prevent late payments, you can issue fees to those customers whose funds are not received within the specified payment period.

Stay on Top of Overdue Collections

It is important to collect overdue sales invoices persistently. Begin contacting your slow payers at 30 days and be sure to get a specific date in which the payment can be expected in writing. Keep notes in case you need to proceed with collections.



Tips To Improve Your Cash Flow (cont.)

Preserve Cash

Whether you are a startup or long-established business, make sure you save as much cash as possible. Avoid spending freely on unnecessary improvements or extras such as lavish offices and business lunches. It is important that every one of your expenditures has a concrete purpose and value to your business.

Cutting excess expenses gives your business a cushion of cash that is needed during periods of decreased cash flow. A good place to begin is to review your subscription-based expenses. Monthly recurring expenses can add up over a course of a year. Be sure to cancel products or services that you are no longer using, such as computer software or consulting services.

Lease Instead of Buying

At some point, your business will need new equipment or technology to increase production or improve operational efficiencies. Putting down a large sum of money for a piece of equipment or technology can be risky. Leasing your much-needed equipment, rather than

Whether you are in need of new computers for your office or a new business vehicle, leasing allows you to acquire them with an affordable monthly payment. Plus, you can pay for the equipment over time as purchasing it outright, is a great option that can help conserve your cash.

Maintaining a positive cash flow does not end with these steps; it is important to monitor and adjust your cash management on an as-needed basis.

Plan Ahead... Especially For Unexpected Tough Times

In order to prevent a cash-crunch crisis, your business should have a plan in place to address any financial shortcomings. This begins with preparing cash-flow projections for the coming year, if not more frequently. Forecasts of the cash flowing in and out of your business will help you determine the periods when your business will have a surplus of cash and when it might have a shortage.

Although it is impossible to predict potential financial problems, planning for any financial scenario your company might encounter in the future is a smart strategy. Create several scenarios, both best-case and worst-case, and prepare for both. When you have the appropriate contingency plans in place, you are better poised to respond to trouble on the horizon and reduce the chances of a cash crisis.



Prepare for Economic Downturns

Amid the uncertainty of our economy, planning ahead becomes even more critical to the success of your business. Companies that maintain a positive cash flow are better equipped to thrive during a downturn, while others might need to downsize.

Summary

There may be a time when you find your business lacking the cash it needs to operate. As outlined earlier, shortages of cash can be caused by a number of factors, including slower period of sales or fluctuations in the timeliness of customer payments. However, when your projections present a period of negative cash flow ahead, you need to have ample time to identify the best solution to address your cash flow needs.

When your business needs an influx of cash quickly, examine all of the business financing options that are available. There are financing resources that provide working capital solutions to help your business maintain the cash you need to survive during times of need.

Balboa Capital hopes that you found this whitepaper to be informative and helpful. If you need to acquire cash for your company, we have several flexible business loan products to choose from.

About Balboa Capital

Balboa Capital is a technology-driven financing company that provides business owners with fast, hassle-free solutions to fuel their growth and success. The company specializes in small business loans, equipment financing, commercial financing, equipment vendor financing, and franchise financing.

Balboa Capital developed an intuitive online platform that simplifies the entire financing process. Calculators provide instant estimates, applications can be completed and submitted in a matter of minutes, and sophisticated credit scoring technology provides instant decisions. Visit <http://www.balboacapital.com> to learn more.

