For Your Business Success

…monitor cash flow

If there is one financial challenge that small business owners should master, it’s cash flow. Your business could have strong sales, healthy profit margins and a growing customer base — but a negative cash flow could sink you. More than 80 percent of failed small businesses experience cash flow problems.

Regular readers of this column are aware that I launched my 2019 challenge to every small business CEO (“get your business in order this year”). In this column, I will give some suggestions on tools you’ll need to monitor cash flow and how to create a budget for your business.

Cash flow is the money that moves in and out of your business over a given period, typically each month. If you deposit more money than you spend in a given month, you have positive cash flow. But if you spend more than you deposit, you have negative cash flow, and may need to find money elsewhere to make up for the shortfall.

I like the way Kevin Guerrino, Executive Director of Finance, Small Business Services, Deluxe Corp. summarized this. He said that “Your financials are the visualization of every decision you make as an entrepreneur. They connect the results of your marketing plan, sourcing decisions, pricing strategy and so much more. Taking the time to use financial planning tools to bring those decisions together will help ensure your business plan is a success and that you reach your cash flow goals.”

First, I will start with some basics.

**Cash versus profit:** Determine your cash surplus or cash deficit by adding your cash balance (often simply your bank balance) to your cash receipts (money you collect, primarily from customers), and then subtract your cash disbursements (money you pay for labor, inventory, supplies, operating expenses and so on). Simply, it looks like this: **Cash balance + cash receipts – cash disbursements = cash surplus or cash deficit**

If you end up with a positive number, you have a cash surplus. If the result is a negative number, you have a cash deficit.
The cash flow cycle: Cash flow has three interacting parts: payables (what you’ve got to pay out), receivables (what is payable to you) and inventory (the value of goods sitting on shelves or awaiting production). Deluxe Corp and SCORE jointly published a small business guide on financial fundamentals and used this graphic to demonstrate the workings of cash flow.

Monitor your cash flow: For some small businesses, paying careful attention to bank account statements and cash activity is sufficient for monitoring cash flow. That said, a more robust tool for tracking cash flow, and one most businesses will ultimately want to use, is a cash flow statement. This is a financial statement that summarizes how much cash is entering and leaving your business. Accounting software tools like QuickBooks generate cash flow statements based on the data you’ve entered over the course of a month.

The larger your business grows, the more complicated your cash flow situation may become. But, it’s important to consistently track cash flow to ensure you have the resources to cover your business expenses.

Create a business budget: Ideally, you created a budget for your business before you opened. If not, don’t worry — it’s never too late to create a budget to give yourself a view of the money you’re bringing in and to track your long-term goals.

Here are some suggestions to help start your own business budget:

1. Begin right away. It’s never too early or too late to start a budget. Often, a budget outlines revenue and expenses for one year, starting in January. That said, don’t wait until the new year to start a budget. Making time for budgeting always pays off.
2. **Build a budgeting team.** Any employee involved with helping your business’s performance should be involved in creating and managing your budget.

3. **Set long-term financial goals.** Choose specific and measurable goals to track throughout the year, such as boosting online revenue by 25 percent, or cutting expenses by 10 percent. Make those goals known across your business, determine how you’ll meet them and track them regularly throughout the year.

4. **Estimate monthly expenses and revenue.** Use data from last year — bank statements, invoices, receipts and other financial records — to forecast your estimated budget for the coming year.

5. **Track your finances.** Record your business expenses and revenue as the year progresses, so you can always see the progress you’ve made on your goals.

6. **Don’t be afraid to adjust.** Business isn’t always predictable, so adjust your budget on a monthly basis if necessary. For example, if a large payment arrives unexpectedly early or late, make adjustments to your budget accordingly.

7. **Make smart decisions.** Your budget is there to tell you whether your business can take on added expenses, so use it when making decisions about investing, paying yourself or paying off debt you may owe.

8. **Repeat the cycle.** As the end of the year draws nearer, look at your budget and see where you stand. Use what you learned to set new goals and projections for the following year.

Dean L. Swanson  
Southeast Minnesota SCORE  
c/o Rochester Area Chamber of Commerce  
220 South Broadway, Suite 100  
Rochester, MN 55904  
www.seminnesota.score.org/  
*Dean is a volunteer Certified SCORE Mentor and former SCORE Chapter Chair, District Director, and Regional Vice President for the North West Region*