**How to Avoid a Cash Flow Crisis: Know Your Business**

No one type or size of business is immune from cash flow problems. While they are most likely to strike a younger business when management is more prone to underestimating sales cycles or collection timeframes, all businesses become susceptible when the economy unexpectedly down-shifts, exposing them to sudden shifts in demand.

Sometimes, a profitable business experiencing a growth spurt may suddenly find that their cash flow can’t keep up with rapidly increasing expenses. Similarly, businesses that expand rapidly can run into cash crunches because they let their accounts receivable get out of control.

Chances of surviving such challenges are slim at best for businesses that take cash flow management lightly. Nothing short of a deliberate and disciplined process for tracking, analyzing and forecasting the business’ cash flow situation can ensure business survival, and, ultimately, business success.

**Know When, Where and How Your Cash Needs Will Occur**

Since small businesses tend to rely on their speed and flexibility to react to changing circumstances, paper-based ledgers and records, and basic spreadsheet all are outdated and cannot provide the sort of information needed to make effective decisions in today’s economy. Small business owners need the ability to keep their finger on the pulse of their cash needs, and they need to be able to foresee when and from where their cash is going to come. With the technology available today, small business owners can have [affordable access to state-of-the art cash management solutions](https://www.burkeandherbertbank.com/business/business-treasury-services/).

Even the best managed businesses meet with unexpected expenses that can throw off their cash projections. A sudden business opportunity, the need to replace a key employee, the need to ramp up for a big contract, or the sudden loss of a contract, are unexpected occurrences that can put a long-lasting strain on cash flow. Depending on the situation, there may not be time to find a lending source, or the business may not qualify for a loan. Getting control of cash flow, including the ability to project future cash needs, cash on hand, and sources available to meet shortfalls as they occur, greatly enhances the position of business owners.

**Know the Best Sources for Meeting Cash Needs**

One key to building a sturdy financial footing for any business is a solid banking relationship. Businesses should work with a reliable and attentive banker and/or lender to put in place the right solutions to support changes in cash needs. For example, having a business line of credit in place can be a valuable tool to manage cash flow fluctuations.

Another method of raising immediate cash that has seen increasing application by small business owners is “accounts receivable factoring.” In essence, the business sells its invoices at a slight discount of three to ten percent, the idea being that it can collect at least 90 percent now, rather than having to wait 90 days to collect 100 percent.

Although it does seem like an expensive short-term loan, the business has cash in hand, while the third-party buyer of the invoices is tasked with chasing down the payments from customers. But, this approach, along with other creative uses of cash flow, can only work within a highly structured cash flow management system.

Other ways to raise capital quickly might include selling off slow moving inventory at reduced prices. Although, it would be important to let your customer’s know that the price reduction is only temporary. If your business owns equipment, you can arrange to sell it to a lender which, in turn, leases it back to your business, creating, in effect, a loan on equipment you own. Of course, you can sell unnecessary assets such as unused equipment, furnishings or space.

**Strategies for Avoiding a Cash Flow Crisis**

**Know your cycles:** If you have seasonal needs - whether for more employees, more inventory or more capital - and those needs must be paid for ahead of receipt of payment for goods or services, build up sufficient reserves, or establish a line of credit ahead of time.

**Know your debt needs:** If you borrow money, make sure you can make payments based on current operations, not on unrealistic, “wishful thinking” company sales and earnings. If the growth you hoped for doesn't occur, you've got a problem - one that could potentially sink your company.

**Know your inventory:** Money spent on inventory is cash out until those goods are sold. If you purchase inventory on credit, it is important to have a good sense of your inventory aging and related accounts receivable so you're comfortable that payment can be made before it's due.

**Know your cash management processes:** Your receivables and payables management processes should be streamlined with use of electronic processing, automated billing and automated pay roll to ensure optimal inflow and outflows at all times.

**Know your vendors, suppliers and clients:** Often the first sign of trouble is a vendor that asks for accelerated payments or a client that delays payment. Always work on your relationships with vendors and clients so they can become effective partners during a cash crunch. Being able to negotiate new terms with suppliers or ask clients to pay more quickly can help your business survive a crisis.

**Know your expenses:** Although it may be an obvious solution, cutting back on the wrong expenses can worsen the problem.

**Persistence and Vigilance Bring Success**

Through effective, ongoing cash flow management, a business should be able to clearly understand its current needs while forecasting future trends, and plan accordingly. However, forecasts can’t always account for events that can abruptly alter the business’ trajectory, such as a sharp economic downturn, a disruptive technology, or a sudden market shift. The best way to avoid an unforeseen cash flow crisis is to thoroughly know your business, and all aspects that can impact its cash flow at any time.