

In the Flow: Effective Cash Management

by Beth Smith, Business Consultant
with the Small Business Development Center

Business analysts report that poor management is the main reason for small business failure. Poor cash management is probably the most frequent stumbling block for entrepreneurs. Good cash management is simple. It involves:

1. Knowing when, where, and how your cash needs will occur.
2. Knowing the best sources for meeting additional cash needs.
3. Being prepared to meet these needs when they occur, by keeping a good relationship with bankers and other creditors.

The starting point for good cash flow management is developing a cash flow projection. Smart business owners know how to develop both short-term (weekly, monthly) cash flow projections to help them manage daily cash, and long-term (annual, 3-5 year) cash flow projections to help them develop the necessary capital strategy to meet their business needs. They also prepare and use historical cash flow statements to understand how they used money in the past.

A "Cash Flow Statement" shows the sources and uses of cash and is typically divided into three components:

1. **Operating Cash Flow.** Operating cash flow, often referred to as working capital, is the cash flow generated from internal operations. It comes from sales of the product or service of your business, and because it is generated internally, it is under your control.

2. **Investing Cash Flow.** Investing cash flow is generated internally from non-operating activities. This includes investments in plant and equipment or other fixed assets, nonrecurring gains or losses, or other sources and uses of cash outside of normal operations.

3. **Financing Cash Flow.** Financing cash flow is the cash to and from external sources, such as lenders, investors and shareholders. A new loan, the repayment of a loan, the issuance of stock, and the payment of dividend are some of the activities that would be included in this section of the cash flow statement.

No business can be sustained if it is always borrowing in order to make ends meet. But, understanding the three types of cash flow and knowing how to manage each enables a business owner to stay on top of the business. When it is time to seek additional cash from bankers or other creditors, the previous three years of financials will show the health of the business and also suggest credit techniques that will be of value. To succeed in business is to manage cash flow effectively.

If you could use some unbiased advice on how to get your cash flow working in your business, please call the Small Business Development Center at (803) 777-5118 or email uscsbdc@moore.sc.edu. We offer free and confidential counseling, and one of our Business Consultants will be glad to help you!

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