Ask Andi
Trusted Advisor to Business Owners

Becoming Profitable by Predicting the Future

12.24.12

Get control by learning to predict the future instead of reacting to the past.

I keep getting into cash crunches. I've been paying off loans. Sales look good. But now it looks like I might have spent too much on improvements, and I'm wondering if my contracts are as profitable as I thought they were. What should I do?

Thoughts of the Day: Know you're not alone. Cash is king. Figure out the difference between invoicing, cash coming in, expenses and cash going out. Get an accurate picture, and keep a lid on the extras.

Most business owners have a hard time predicting and managing cash flow. There are things you can do to see things more clearly. First and foremost, prioritize cash reserves.

Don't pay off loans too quickly. I know interest on deposits is close to zero and interest charged for credit card debt and bank loans is much higher. Keep the company safe if things go wrong by having extra cash on hand. Until then, think of loan interest as a cost of doing business. Putting $1 towards cash reserves as you put $1 towards paying down debts allows you to accomplish a little bit of both.

Keeping track of cash flow is very different from looking at what's on a Profit & Loss statement. The P&L might show your company has a great net income, when the actual cash picture is much less rosy. Changes to accounts receivable and accounts payable, bank account and loan principal balances can all impact cash without showing up on the P&L.

Look for cash flow shortfalls. List immediate and upcoming expenses. Realistically plan out customer payments. Add up old bills waiting to be paid. Compare money coming in and going out.

If you see shortfalls coming, you can do a few things. If you have extra capacity, sell into it. Cut back on unneeded expenses. Ask employees to use vacation when you're slow. If you have to invest in equipment and materials well in advance of getting paid by clients, talk to your vendors about spreading out payments. Term out credit lines. Make sure every contract is profitable by including the cost of financing.

Many times owners accelerate spending at year end, in order to save on taxes. Forget it. There's no telling what might happen in the first quarter. And you're not going to save that much on taxes by tying up precious funds paying for expenses you didn't need to make. If you're tight on cash already, trying to save a few tax dollars by spending 3 or 4 x what you're going to save makes no sense.

Make sure you have a good handle on accounts receivable. When you're tight on cash it's possible your clients might be in the same boat. That means they're juggling who to pay and who to delay. Make sure your company gets paid sooner rather than later.

Have a good accounts receivable system. As soon as invoices go out, call the client's accounting department to verify they received the bill. Find out how long they take to process checks and hold them to it. Focus on collecting accounts that are over 45 days past due.

If someone needs to authorize payments, email invoices directly to that person. Agree on how long they'll take to approve the bill. Better yet set terms in your contract that define approval and payment timing. That gives you something to go by when it comes time to collect.

Be willing to be pushy and demanding. Don't relax with existing customers. They can hold back funds just like new customers do.

Still not sure what to do? Confused by the picture you're looking at. Call us, we'll help you figure it out.

Looking for a good book? Guide to Cash Management: How to Avoid a Business Credit Crunch, by John Tennent..

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