



How to manage cash flow for small business owners



Learning to manage cash flow is essential for maintaining the stability of your small business.

To be a small business entrepreneur means you have the drive, passion and a great idea to serve customers in new ways. However, it also means you need to stay organized and concentrate on the details of the business, including ways to manage cash flow.

But what is cash flow? It is knowing how much cash is coming in and going out and accurately forecasting sales and expenses.

Here are 8 ways to manage cash flow

1. Know when you will break-even

As a small business owner, you might wonder when your business will start to make a profit. Instead, set a goal to reach a break-even point. This milestone ensures your business is recovering all your costs and is set to generate a profit.

Determine your fixed cost (salary, rent, etc.), variable cost (materials, labor cost, etc.), income sources and contribution margin per unit (i.e., selling price - variable cost per unit) to calculate the break-even point. This calculation will also help you revise your profit targets and adjust your pricing strategy to achieve better cash flow management. It also provides a numerical benchmark for **projecting your cash flow** in the near future.

2. Prioritize cash flow management over profits

Emphasizing cash flow over profits might seem counterintuitive. However, if you fail to manage cash flow, your business may encounter challenges that a profitable quarter cannot resolve.

Here are effective small business cash flow management techniques to help you prioritize cash over profits:

- **Create a cash flow statement:** Track incoming and outgoing cash daily.
- **Develop a cash flow forecast:** Project future incomes and expenses based on previous data.
- **Optimize receivable payments:** Offer early payment discounts, invoice (after goods delivery) and follow up regularly on overdue invoices.
- **Manage payables:** Prioritize payments that have an impact on your business and credit score and negotiate payment terms with suppliers ensuring a mutual agreement that supports effective cash flow management for both parties.

3. Secure credit ahead of time

Getting credit in advance for a planned business purchase or as a safety net for unexpected expenses can be a valuable step for your business. After all, you might not always be able to tap into your savings or use operating income to buy inventory, manage payroll, handle repairs, or even get that much-needed technology upgrade for your business operations.

Securing a **business line of credit** before an expense can give you peace of mind to access funds when you need them the most.

Not all expenses are suitable for a credit card – for example, tax payments, payroll, or building improvements often require other forms of funding. Having different sources of capital gives you the flexibility to cover unexpected costs without impacting your small business' cash flow.

A line of credit gives you the flexibility to borrow a certain amount of money, whenever you need it and you only need to repay what you have borrowed, not the entire credit limit.

Another option is to apply for a **business loan**. It allows you to tailor a term that best suits your needs to finance a big-budget business expense and pay a fixed amount for the approved loan term. Typical uses of a business loan are building improvements or purchases, equipment/machinery purchases or working capital for inventory buildup.

4. Use dedicated software to manage your finances

If you're running a small business and you think that a simple spreadsheet will suffice. Think bigger!

Switch to an accounting or small and mid-sized business (SMB) software solution for streamlining your cash flow.

These software solutions allow you to hone in on the details and look at the big picture. You can track expenses, create and manage a budget, forecast cash flow, manage accounts payable and receivable, etc.

Above all, they offer a dedicated system to **manage your cash flow** and keep you organized.

5. Use a payroll service

It's tempting to think that you can manage payroll all by yourself. However, many small business owners have found that outsourcing **payroll services** saves them a lot of time.

6. Accounts payable improvement

There are plenty of ways to save or spend a dollar. While finding efficiencies and cutting costs is crucial, it is also worth looking at how you pay the bills.

Many credit cards offer cash back bonuses that can add up, depending on eligible purchases and the amount spent.

However, it is important to remember that credit cards often come with a high interest rate, so be mindful of any balances you might be carrying from month to month.

7. Schedule your payments

The good news is that you don't have to pay for everything at once. To **manage cash flow** and keep ample cash on hand, consider dividing your bills into two easy and manageable categories:

- **Category 1 – Critical:** This category includes essential expenses that you must pay to continue operating and maintain a healthy credit rating, such as payroll, credit card payments, taxes or rent.
- **Category 2 – Payment is flexible:** Many vendors and suppliers are willing to work out a flexible payment plan. Keep communication open and pay at the agreed-upon time.

Ensuring that you're not delaying any payments will help you maintain positive relationships across all payment channels.

8. Ensure consistent inflow of cash

Making sure you get paid is, of course, one of the most important parts of your business operations. The sooner you get paid, the sooner you can invest in your business. Therefore, it's vital to send out your invoices on time and establish clear payment terms in advance.

Realize that people and other companies might be late with their payments so it's important to have a plan to manage your cash flow smoothly. Consider setting clear payment terms that give you enough time to maintain a steady cash flow without disrupting your operations.

Learning how to manage cash flow for small business owners can be challenging, but a structured and planned approach can make a significant difference: secure credit ahead of time, empower your business with digital solutions, schedule payments, and establish clear payment terms.