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and surrounding areas**

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**Importance of Cash Flow**

You may have an excellent product or service and good sales, but if you can't get cash to pay your bills, even if your business is growing, you will soon face financial disaster. It is a fact of business that too many entrepreneurs just don't seem to understand -- it all comes down to cash flow.

Profits are the ultimate goal, but paper profits aren't enough. You have to collect your sales revenues, and if you can't collect them in time to meet your liabilities, your business will fail.

Forecasting cash flow is an essential part of starting and running a business. Most entrepreneurs believe that the right things occur in a timely manner. Unfortunately, things don't work that way. While it varies among businesses, most sales are not for cash. Instead, they are usually on payment terms ranging from 15 to 90 days. In the interim, the business must have enough cash to pay its salaries, rent, loans and other bills on time, and still have funds for more inventory. To accomplish this, it's imperative to pay close attention to the scheduling of receivables --cash coming in from sales -- and costs. The initial forecasting a business owner does to match cash inflows and outflows, and setting up alternatives when they don't match, will often be the difference between the success or failure of the business.

For example, one business that assembled kits from parts manufactured by a single vendor had a continual cash flow problem during his first year in business. Orders were rolling in, but he was always short of cash to pay for manufacturing. Even with large customer orders he didn't have enough money to pay for large orders of materials from this key vendor which prevented him from building up inventory to meet his customers requirements for immediate shipment. Finally, he worked out a tough deal with the manufacturer. In exchange for up to 90 days to pay, the manufacturer won the right to take over his business if he didn't pay on time. Fortunately, he usually paid in 30 days, and when the business grew enough, he was able to cancel the agreement. In time he was able to take the next step and manufacture his own parts.

This solution to a cash flow problem was more emotional and extreme than it need have been. Finding a solution in which everyone gains is best. There is often a one-sidedness about business that doesn't look at the relationships between the business and its vendors and customers, with one party trying to take advantage of another for the short term. The companies

that look to long term relationships tend to do well and be successful.

The absence of forecasting and cash flow budgeting is one of the biggest deterrents to a successful small business. The typical reaction is, "How can I forecast when I don't know what's going to happen?" A practical solution is to make a projection based on the previous year's sales, inflation, and what's happened in the industry. If it is the first year in business and the numbers are only estimates use them as a gauge to compare with what actually happens.

The important thing is to actually sit down and monitor what's happening with cash flow on a regular basis.