

# Control YOUR Cash Flow

 WORKWAVE® | Financial Services





**When you start a business,** you don't realize the one million things that becoming a business owner will require: marketing, sales, design, technology, social media, accounting, and so much more. **You simply think:** I'm great at what I do, I have all (or most of) the tools I need. Why shouldn't I start up my own business and be able to design my schedule, too? So you make up some business cards, start a website and get after it... Voila... you're in business and making money!

But what happens to most small business owners is that it only takes a few short months to realize that making money and managing business finances are two different things. One of the most important things for business owners to understand and learn to manage is their revenue, expenses, and cash flow.

## So what is cash flow?

In its simplest definition, cash flow is how money comes into and goes out of a business – how it flows through your business.

Positive cash flow indicates that a company is adding to its cash reserves, allowing it to be profitable, reinvest in the company, pay out money to shareholders or owners, or pay down debt.

Negative cash flow is when a business spends more than it makes during a specific period. You might have short periods where this happens, and when running a seasonal business (and we're almost all seasonal on some level), it might even be normal. But learning to manage this cash flow and plan for those ups and downs is critical to both your small business's success and your sanity.



## Here's a common scenario:

Money comes in, and business is looking good. It's summertime, projects are on point and the weather couldn't be better to keep things moving. You have a few regular small expenses come out of your bank account – it's no big deal. Payday comes around and you pay yourself and any employees you have – totally normal.

Then you have one of those days and you realize you're out of a few key office and job supplies, so you head to the store. You check your bank account first; things still look good, so you load up what you need, and then you add a few things you didn't because there's extra in your account. You've been eyeing up some new tools, so you decide to splurge on them, too! Things have been great, right? In fact, you're so busy that you decide to hire another team member so that you can take on more sales.

Business proceeds as usual for a few weeks and then all of a sudden, sales take a drastic hit that you weren't expecting. Maybe your team keeps calling off and projects start falling behind; the weather isn't cooperating with your business plans; or your clients start pulling back on services unexpectedly. Regardless, the money coming in starts to slow down.

It's the beginning of the month, and the rent is due. You pay it, but you're feeling a bit uneasy about where it leaves your bank account. Then you remember that your annual website and general liability are due. Ouch... you become a little more concerned about money. And then your regular monthly expenses and vendor payments that usually seem so small don't seem so small anymore. Payroll comes around again, and there's not enough in the account. You scrounge up what you've managed to save personally, reinvest it into the business to make payroll this week and wait it out until you can collect on some outstanding receivables to pay yourself back plus some.

### Does any of this sound familiar?

This kind of poor cash flow management is the reason 82% of small businesses fail. But good cash flow practices are something that can be learned and managed! If you're ready to jump off the hamster wheel, keep reading to learn five things you can start doing to better manage your cash flow.



**“Making more money will not solve your problems if cash flow management is your problem.”**

**- Robert Kiyosaki**





## STEP 1


# Track Your Income & Expenses

You first need to establish a firm grasp on where you've been spending your money and organize that information into categories. Past performance is indicative of future behaviors, and if you understand where you've spent your money in the past, you can control it better and make smarter decisions moving forward. Looking at your past expenses gives you the ability to help tell a story about your finances. It can also put things in perspective.

## Just make sure that you don't get stuck in the past.

You can use this information to answer questions such as:

- How much have I been spending on key categories (think payroll, marketing, office expenses, repairs & maintenance, etc.) and how does it align with industry standards and recommendations?
- Are there any vehicles or equipment that have required excessive spending to repair?
- Does our company spending align with our company values?
- Are we getting a return on investment (ROI) on the money going out?
- Are we making investments or just creating expenses?



Tracking and bookkeeping don't have to be complicated, but they're necessary for much more than tax purposes. If you're only tracking expenses for your accountant to file taxes, you're missing out on tons of information that can help you manage your business finances and cash flow.

If you're a newer or smaller company, start out with where you are and what you can afford first. I rarely recommend excel or spreadsheets for the field service industry; they're much too complicated. Even smaller businesses can benefit greatly from software that automates tedious, repetitive tasks and minimizes your labor expenses. This is doubly true if you can integrate payment processing software directly with the software you use to run your operations.

Additionally, when you track income and expenses with software designed to do so, you can better understand your revenue streams and track them more accurately. Your payment systems and merchant service providers, such as Visa and Mastercard, will integrate with the system, providing you the ultimate working machine to help streamline your back end and increase your cash flow efficiency.

The first step is to find your system, make sure you take the time to get it up to date and integrated, and start asking yourself some questions about your past spending habits.

## STEP 2

# Use Multiple Bank Accounts

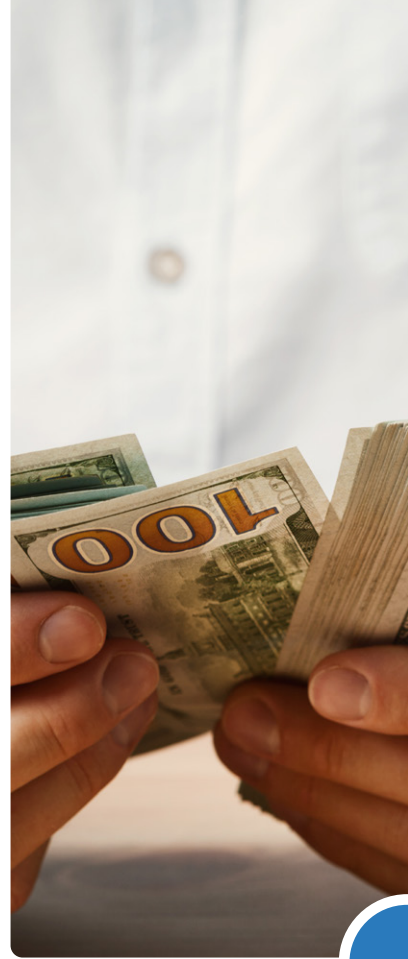
Next, create additional accounts to give you boundaries for spending according to your cash position. Don't look at operating expenses as one big bucket; think about it as taxes (don't touch), owner's pay (aren't you always the last to get paid?), marketing, payroll, debt, equipment, profit or subcontractors.

These accounts will be specific to your business and your challenges. Having separate accounts helps you to create boundaries and set priorities according to your goals before you even think about spending a dime on "extras."

If you're only going to create a few different accounts, it's recommended that you create one for taxes, one for your own pay and a third for your largest expense. If you have a hard time reeling in marketing, make it an account. If you have heavy inventory costs, make it an account. If you struggle making payroll, create an account. Doing this will give you boundaries where you need them the most. When it comes to saving for taxes and creating profitability, those are non-negotiables that reduce stress and help keep your business in line.

Multiple bank accounts are successful because of Parkinson's Law — the idea that "work expands so as to fill the time available for its completion." The same is true for our time, product and money.

When you have more money than needed available in a general account, the lack of hard limits makes it easy to overspend. It's much easier to dismiss the effects \$1,000 of non-necessary spending might have on your account when the balance is \$15,000; not so much if it has \$5,000 in it. Creating separate accounts splits your money into categories, making it easier to control and track spending.





## STEP 3

# Run a Simple Expense & Revenue Analysis

Running an expense analysis will help you determine which dollars spent are directly generating revenue, which are necessary to business operations but changeable, and which are truly unnecessary to running and operating your business without jeopardizing the quality of your service. This will allow you to use your current revenue to its highest potential.

An easy way to start an expense analysis is to print out your P&L Statement to include what percent of your revenue is going to each of your expenses. Start with the largest expenses and ask yourself which ones are essential to operating your business.

**Next,** ask yourself how you can reduce each of those expenses. You're looking to negotiate to decrease expenses, get more favorable terms, increase value from providers, eliminate overlapping services and otherwise reduce expenses.

Once you've gone through your essential expenses, you'll want to evaluate which are critical to delivering the level of service you're committed to providing, which are necessary costs but have the potential to be changed, and which can be eliminated without compromising the quality of your business? At this stage, it's crucial to focus on what can be cut rather than what you want to cut. To prevent emotions from driving you to make poor business decisions and ensure you remain objective, you may want to do this exercise as a team.

If your business isn't able to generate a P&L report at this stage, don't fret. Print out your last three months of business expenses and statements from all of your active accounts, including both credit and checking. Go through each one with a highlighter and highlight all your non-negotiable items – these are the things your business needs to operate and run, such as rent/lease, utilities, taxes, payroll, insurances, inventory and transportation costs. Yes, the amounts are changeable, but the expenses themselves are the ones you've deemed necessary to your operation.

The next things to highlight are all the items you've spent money on that help you keep the quality you deliver to your clients or help you with efficiency. These are items you would ideally keep but could operate without. These might be hard to imagine letting go of, but defining this category is still crucial.

**Lastly,** mark all the items on the statements you regret, realized were unnecessary, or that you're more than willing to let go of now in pursuit of a better, more profitable and better-aligned business.

This exercise will help you align your spending with your goals and ensure you open up room in your finances for excess cash flow to determine where it can best be spent. Once necessary expenses have been confirmed, it is a lot easier to say goodbye to unused subscriptions and other excess spending.

A revenue analysis will allow you to focus on the streams and services that are generating the most revenue for your business and identify ways to create efficiencies in your systems and cash flow.

Your revenue analysis can be performed by running a report to determine how much each service or revenue stream represents of your total income generated. This will help you identify which services are worth your time to focus on and which may be detracting from increased revenue potential.

For any services contributing to under 10% of your revenue, ask yourself a few questions. Is the time spent on this service worth the dollar amount coming in? Could those hours and/or resources be better spent on an item bringing in a larger percentage of business? What would eliminating it mean? Are there pieces of equipment that you could sell or stop renting? Training that could cease? Slow-moving inventory that could be pulled from your floor? Too often we look to increase streams of revenue and diversity within the company when, in actuality, it can decrease productivity and efficiency.

**Additionally,** this is the time to check in with your accounts receivable process.

**Some important questions to consider in this step include:**

- Do you make it easy for customers to pay you? For example, do you provide a payment link on your invoices so customers can pay with a credit card?
- What is your average time to collect on customer invoices? Do you have a process in place to quickly follow up on past due invoices?
- Rather than letting customers pay in arrears, could you leverage retainers and prepaid deposits to help with your accounts receivable process? Could your technicians be collecting payment due upon service with a credit card reader?
- Do you suggest upsells or additional products or services to encourage higher average transaction amounts? How could you leverage this?
- Are your systems integrated? Are your workflows optimized for automation? Could you be putting certain types of clients and services on autopay with your merchant service provider or financial software? Are you sending automatic reminders?





## STEP 4

# Become a Pro With Budgeting, Forecasting & Creating Projections for Your Business

Becoming a pro at forecasting your revenue and expenses allows you to develop systems to balance out the lows and highs. By completing the steps outlined earlier, you set the stage to create your first budget. Creating the following year's budget should be done at the end of each current year, usually starting around October.

As you move into the year, you can tighten up each subsequent quarter based on changes in the economy, your business model, your regular expenses and investments, and what you have planned for marketing, new services or other additions. With each passing month, you lock your budget in even more securely and adjust as needed.

Putting these all together for any given period of time will allow you to plan your cash flow, informing your decisions to hold back from spending, make investments, hire new team members and grow your business.

When you can predict relatively slow seasons (such as winter in a lawn care and maintenance company), you can plan ahead on how much to have saved, what services to focus on at that time to generate as much revenue as possible, what expenses to scale back on, and ultimately create a system that minimizes the hills and valleys of seasonality. With excellent budgeting and a firm understanding of your numbers, you'll know exactly what to cut and in what order, whether it's an expected slow season or unforeseen slowdown.



**“We were always focused on the Profit & Loss Statement, but cash flow was not a regularly discussed topic. It was as if we were driving along and watching the speedometer, when in fact we were running out of gas.”**

**- Michael Dell**



## STEP 5

# Create Security With an Emergency Fund

Building an emergency fund for your business and working your way up to holding 2-3 months of cash reserves on hand at all times is an incredible way to ensure stability for your business. These cash reserves should include the amount you would need to pay all your necessary expenses for a given time, including payroll (for your employees and yourself), rent, utilities, dues, subscriptions and anything else you can't cut out. Start by setting aside enough for one month, then build up from there.

**Ideally**, you'll do the same with your personal finances, ensuring that you have a bit of wiggle room if something should happen. One month won't catch much, but it's a strong foundation that keeps you from panicking when something does happen. Just like your business emergency fund, start with enough for one month and grow from there. Expenses themselves are the ones you've deemed necessary to your operation.

## Taking action on these five simple steps

is a surefire approach to understanding your business finances and managing your cash flow successfully. And don't forget: your business feeds your personal life, so although separating the two financially is a must, you need to master both to truly thrive. We too often think that if we take control of one area the other will fall into place, but money is fluid and must be managed effectively day after day and month after month. By taking steps to master your business's cash flow, you build a foundation on which you can stay in control and grow your business effectively.

