

Effective Ways to Manage Your Cash Flow

A woman with dark curly hair, wearing a green t-shirt and a dark green apron, is smiling while talking on a smartphone. She is also writing in a notebook with a pen. The background shows a modern interior with large windows and various potted plants.

SMALL BUSINESS ACCOUNTS AND PAYMENT METHODS

Regardless of how much revenue your small business earns, if your cash is tied up in unsold inventory or receivables, that money doesn't do you any good.

If you've built a well-oiled operation, you can time the inflows and outflows to ensure that you have enough money to pay your bills and invest in growth. A cash flow crunch—when you're behind on bills because you're waiting on payments—can debilitate a business.

Taking a proactive approach to managing your cash flow is a worthy investment. Tracking your cash flow is part of the puzzle, but you'll also want to learn about the strategies and products that can help you avoid a crunch.

Fulton Bank

FINANCIAL TOOLS TO SMOOTH YOUR CASH FLOW

Managing cash flow is all about timing.

For example, while landing a major client or large project is generally a good thing, you could be waiting 60 to 90 days to be paid. In the meantime, you'll need to buy supplies, run payroll and keep the lights on. How can you say yes without falling behind on bills?

Different types of financial accounts and payment methods can help you work through sharp spikes of expenses and income to smooth your cash flow.

1. SMALL BUSINESS CREDIT CARDS

A small business credit card could be a good option for managing short-term expenses. Many cards offer rewards and cardholder benefits, and you generally don't pay any interest on purchases when you pay your bill in full each month.

If you keep track of your statement closing dates, you can make large purchases at the start of your statement and will have around 50 days before the bill's due date. However, credit cards also tend to have high interest rates, which could make them an expensive option if you can't quickly pay down the balance.

2. BUSINESS LINE OF CREDIT

A small business line of credit gives you access to a credit line, and you'll generally only pay interest if you choose to take out a draw (i.e., a loan). While you usually don't receive an interest-free period as with a credit card, the line of credit could have a higher credit limit and lower interest rate than a credit card. You might benefit from having a credit line open for an unexpected emergency. The line of credit can also be a good option for larger loans that you need to pay off over time, such as when you're financing the start of a multi-month project or heading into a slow season.

3. MERCHANT CASH ADVANCES

A merchant cash advance (MCA) is an alternative type of financing that you could use to quickly get an advance on your future sales. You'll receive the money upfront and then repay it with daily or weekly payments that are automatically taken from your debit and credit card sales or transferred from your bank account.

MCAs can offer fast funding and may have less stringent credit requirements than other types of financing. However, the MCA provider may charge high fees, which are built into your repayment amount from the start—you can't save money by repaying the MCA early. The daily or weekly repayment schedule can also eat into your cash flow and lead to another crunch.

4. ACH PAYMENTS

Accepting automated clearing house (ACH) payments could be a good option if you're selling to businesses that tend to pay by credit card or check. ACH payments can be faster and more secure than checks, and clients can easily set up recurring payments. ACHs also have lower processing fees than credit cards, which can save you money or appeal to customers if you otherwise pass on credit card processing fees.

5. WIRE TRANSFERS

While a wire transfer might not be the most convenient or lowest-cost option, consider accepting wires from business clients that are making large, one-time payments. A wire could give you guaranteed access to the funds faster than an ACH payment, and it may be easier to accept payments from international clients.

6. INVOICE FACTORING

If you sell to clients on terms (i.e., they have 60 or 90 days to pay an invoice), you may be able to sell your outstanding invoices to a factoring company. When you factor an invoice, the factoring company gives you a portion of the amount upfront, and you instruct your clients to send payments to the company. Once your clients pay, the factoring company sends you the remainder of the payment minus its fee.

Factoring can help you get paid quickly, but you'll want to compare companies and review the contract closely. Some factoring companies have high fees or restrictive terms that can wind up hurting your cash flow. For example, you may have to factor a minimum amount of dollars each month or pay a penalty, and you could be responsible for outstanding invoices if your clients don't pay.



STRATEGIES THAT CAN HELP YOU AVOID A CASH FLOW CRUNCH

You can use credit accounts, financing and payment options to help manage your cash flow. Additionally, consider how and when you accept or make payments to see if there's any way to build more room into your process.

1. REQUEST TERMS FROM VENDORS AND SUPPLIERS

If you have an ongoing relationship with a vendor or supplier, see if they'll offer you a net-terms account. For example, you may be able to buy supplies today and have 15 days (net-15 terms) to pay the invoice. Make your payments on time or early to build a good reputation, and you may be able to extend the terms in the future.

2. OFFER DISCOUNTS ON EARLY PAYMENTS

If your clients pay on terms, you could offer them a discount for early payments. There are some standard discounting options that your clients may already be familiar with and appreciate. For example, if you see "2/10, net 30," that means the invoice is due within 30 days, but the buyer can receive a 2% discount on the invoice amount if the invoice is paid within 10 days.

3. CLOSELY MANAGE YOUR ACCOUNTS RECEIVABLE

Make sure you have systems in place to quickly send invoices once you've delivered your product or service. You can also try to add late payment fees to your contracts and send warnings to clients whose payments are past due.

4. REQUIRE DEPOSITS

Require a minimum deposit before taking on a large or long-term project that necessitates a large upfront investment. Adding progress payments to long-term projects can also help keep cash flowing in and limit the risk that you'll be left waiting for the full payment at the end.

5. REDUCE INVENTORIES AND SUPPLIES

You can't use money that's tied up in your inventory or supplies. While supply chain worries might mean you want to have a surplus on hand, try not to overextend yourself by purchasing more than you'll need in the near future.

WHAT'S NEXT?

Now that you have some ideas for how you can avoid a cash crunch, it's time to decide which will work best for your business. Use this checklist to get started:

- ☐ Compare your current credit accounts and new options to decide if opening an account makes sense.
- ☐ Look over your cash flow statements for periods of negative cash flow or trends that could indicate a growing problem.
- ☐ Comparison shop for services, such as insurance or shipping, and see if there's an opportunity to free up cash flow by cutting costs.
- ☐ Consider which strategy changes you could realistically implement to improve your cash flow.
- ☐ Get professional insights from a small business banker.

Focusing on cash flow is a great way to understand the short-term needs of your business while positioning yourself for long-term success.

With a proactive approach, you can put strategies in place or open credit accounts that can help you through the regular ups and downs of business. You can also forecast how an unexpected challenge or opportunity could impact your cash flow, allowing you to respond from a position of knowledge rather than react and hope for the best.



For more information and tools to help your small business, visit www.fultonbank.com/small-business or call **1.800.FULTON.4**.

Fulton Bank