Quickstart Guide

7 Smart Ways to Effectively Manage Cash Flow in Your Business

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Instituting an effective cash flow management strategy is the most important action for businesses focused on getting stronger and growing faster.

This quickstart guide will help your business take the necessary steps to manage cash flow effectively and efficiently.

If you need additional support, please visit our website and schedule a complimentary consultation.

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RECEIVABLES

KEEP AN EYE ON INVOICES

Outstanding invoices dragging down your business? This is one of the biggest challenges for business owners. Waiting on payment, reminding clients about payments coming due and following up on late invoices is a job in and of itself. Having a solid contract in place including payment terms and penalties applied for late payment is vital in keeping cash flowing in your business.

Automating invoice reminders can help free up time and encourage clients to pay in a timely manner. If the time delay between completing services and payment is stretching your business too thin, consider revising your payment terms for new or repeat clients.

E.D.G.E. Tips:

- Track payment cycle and look for trends
- Include late payment fees and collection policies in your Services Agreement
- Consider shortening payment cycle to less than 30 days
- Explore solutions to automate invoice reminders and late notices

EXPENSES

GET CLEAR ON COSTS

Having a solid understanding of the actual costs of doing business is paramount to growing and scaling your company. Even seemingly small monthly subscriptions can add up quickly and deplete profit margins.

Taking a hard look at your numbers can provide valuable insights into where you can cut or reduce expenses. Evaluating supplier and vendor costs may inspire you to renegotiate the costs for certain goods and/or services. It is also wise to revisit costs of essential business supplies every year and do a little comparison shopping to reduce spending.

E.D.G.E. Tips:

- Review monthly dues or fees for subscriptions, memberships and applications
- Cancel or change plans that are not being used on any of the above
- Reach out to vendors and suppliers and ask how you can reduce costs
- Negotiate high interest rates on revolving debt or business lines of credit

PROFITABILITY

ANALYZE AND ADJUST PRICING

Whether you implement a slight increase each year to account for cost of living or you adjust pricing for services and products every few years, it is a good business practice to analyze and adjust your pricing on an annual basis.

For professional service firms, utilizing a project profitability model can help your company maximize profits and address areas where profit is falling short. Clearly identifying gaps and adjusting accordingly can significantly boost your profit margins.

E.D.G.E. TIPS:

- Track each project individually to determine profit margins accurately
- Look closely at all areas of a project that take the most time but bring in the least amount of revenue
- Evaluate your pricing structure and make adjustments accordingly
- Consider ways to add more value to justify charging higher rates

FORECASTING

CASH FLOW PROJECTIONS

Estimating how much money will flow into and out of your business ahead of time can help you stay on track and identify areas that need attention. By comparing actual income and expenses with a cash flow forecast, you'll see quickly where you are hitting and missing target objectives.

For example, if you see lower sales than projected, you'll want to understand why. Is there a new competitor in the market or is there something happening in the industry that may be affecting sales? You might also notice an unexpected increase in demand of a particular product. This may impact your marketing in the future. It is also important to consider both best and worst case scenarios. Creating contingency plans for both scenarios will ensure you are fully prepared.

E.D.G.E. TIPS:

- Create cash flow projections for the year ahead
- Compare forecast to actual cash flow on a monthly basis
- Note areas that are unexpected in terms of income and expenses
- Share findings with staff to highlight wins and to explore solutions

INVESTMENTS

MAKE SOUND DECISIONS

Investing or acquiring assets is part of building and growing a strong business. Knowing how, where and when to invest can be a challenge if you don't have access to an advisory board or financial accountant. Understanding your financial portfolio can help guide your company in making sound investment decisions.

There are several key factors to consider when it comes to investing. For instance, does this investment or acquisition support the long-term objectives of the company? What trends in the marketplace support this investment decision? What should happen if the investment does not offer the anticipated return? If you aren't sure about what, where or how to invest or acquire assets, consider talking to a professional accountant or financial advisor to help guide you.

E.D.G.E. TIPS:

- Determine which projects or acquisitions should be adjusted, delayed or eliminated based on your company's financial portfolio
- Evaluate market trends to determine both the potential upside and downside of an investment or acquisition

INVENTORY

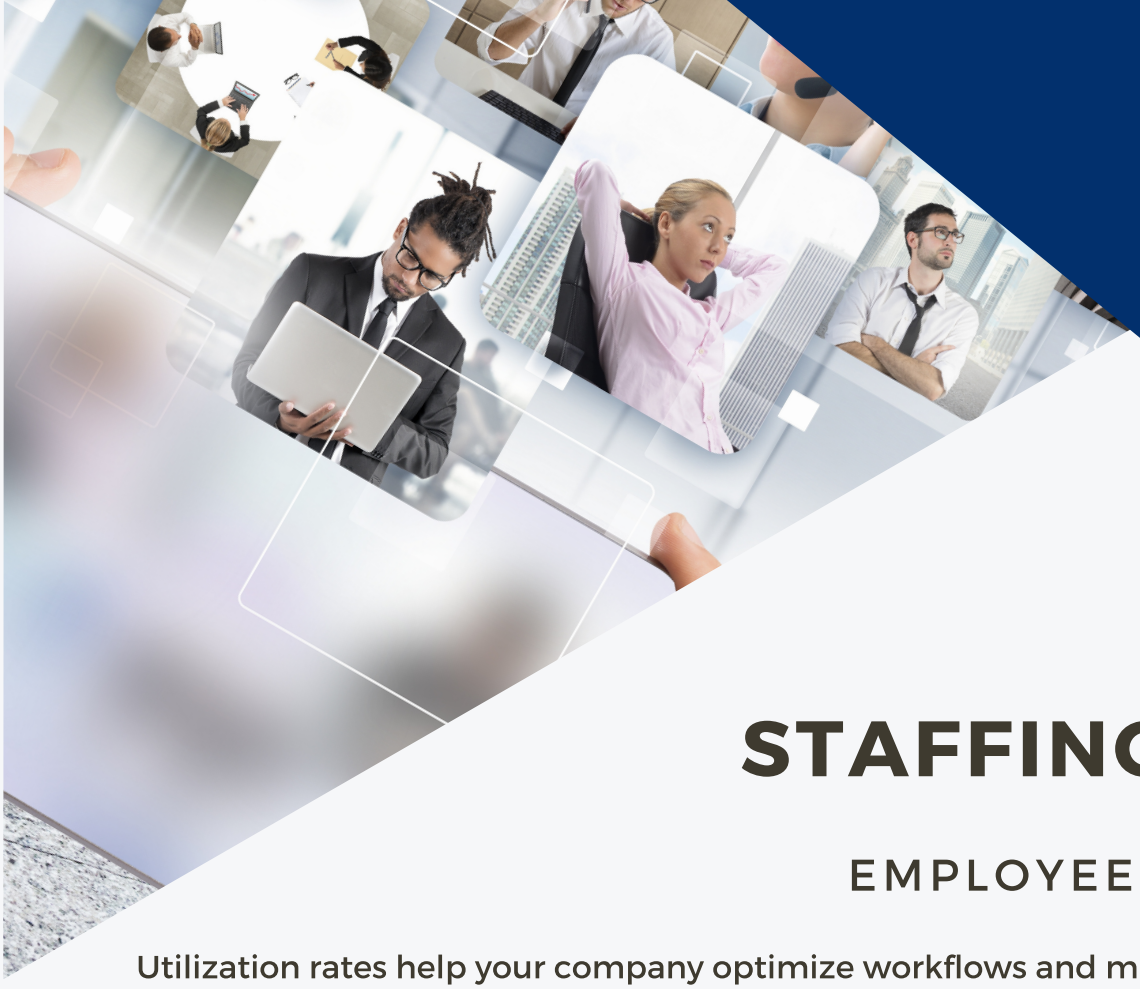
TRACK ACCURATELY

Knowing what inventory your company has in stock and what it is worth is important for both end of year taxes and to maintain a healthy balance sheet. Too little inventory and your customers may look elsewhere. Too much inventory and your company may fall short on cash. Not having a handle on inventory can impact efficiency, customer loyalty and profit margins.

There are many solutions when it comes to tracking inventory. Using an accurate tracking system that is accessible by all departments within your company can increase your company's profitability and level of efficiency.

E.D.G.E. TIPS:

- Consider investing in an Inventory Management System
- Assign tracking and monitoring of inventory to a relevant team member
- Review inventory quarterly and make appropriate adjustments to avoid out of stock and overstock issues



STAFFING NEEDS

EMPLOYEE UTILIZATION

Utilization rates help your company optimize workflows and maximize profits and productivity. Understanding how utilization rates tie into your profit gives you insight into which services are most profitable. This helps the company focus on projects that align with the organization's business strategy.

A consistently high utilization rate may mean that you are overworking your staff and need to consider hiring. A consistently low rate could indicate there is not enough work in the pipeline or hours may be wasted on non-billable administrative functions. By having clear and trackable metrics in regards to billable hours, especially for professional service firms, you'll know at a glance what's working and what needs to change.

E.D.G.E. TIPS:

- Determine your employee utilization rate by dividing each employee's billable hours by the number of hours worked in a week.
- Take note of areas where non-billable hours are being spent
- If you notice meetings are taking up more hours than necessary, consider reducing the number of meetings each month

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