

Q&A How to Better Manage Your Small Business Cash Flow

Cash flow is to business like water is for plants, both are critical for growth. While several small businesses may never experience these problems, others may experience the need to cut costs or look towards alternative funding just to make it past payroll. This can cause additional pressure for your business as loans become harder to obtain, and you may face the decision to ultimately close up shop.

Not every small business will experience the worst of poor cash flow management, but every business can learn a few lessons along the way to help them better manage their operations.

Below are a breakdown of several cash flow questions that small businesses have sent our way.

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Q: I currently use Excel to manage all of my cash flow and forecasting, but when there's problems auditing and editing can take hours and is an absolute pain. Are there any templates or solutions that can help me with cash flow forecasting and management?

A: Absolutely! There are tons of solutions to help small businesses better manage their cash flow. We highly recommend using QuickBooks and Xero for small businesses, and depending on your size and additional needs we also suggest looking at NetSuite. QuickBooks and Xero are both accounting software solutions, but think of NetSuite as accounting software on steroids, as it's a complete suite of enterprise resource planning tools. Feel free to check out our software reviews of [NetSuite](#).

Q: As a start-up, how important is it for me to calculate our break-even point and what's the easiest way for a non-financial person to figure this out?

A: Being able to calculate your break-even point is highly important, especially if you're looking for any type of funding. What you'll want to do is create a simple spreadsheet that lists all the income from sales each day, week, month and year. Then you'll want to calculate that with your expenses that you need to pay out. SCORE offers a good Break-Even Chart that you can use if you're just getting started that you can download [contact us](#) for a free consultation.

Q: What's the magic number for cash reserves in case of a rainy day?

A: The rule of thumb here is always have enough cash reserves to cover your business for 3-6 months to cover all known and unknown expenses.

Q: I have difficulty getting clients to pay on time, at what point should I consider using a collection agency on past due receivables?

A: Using a collection agency can be tricky since they take 30%. I suggest offering discounts as an incentive for early payments before this becomes a problem. If this has already become a problem, then you'll want to contact your customers and offer your own credit terms and payment plans.

Q: I have a store in the Bay Area, and was wondering what the ideal percentage is to mark up merchandise? If I get discounts from vendors for purchasing a higher volume, should I sell the products at a discount or sell it at the same cost before the discount?

A: There is no right or wrong here, but it depends on your situation. Your mark-up will vary depending on your overhead costs, but you should always try and sell your merchandise for as much as the market can tolerate. Obviously, use your best judgement and know that if your product has a higher perceived value, then people will pay more.