ANSWER THESE 7 QUESTIONS TO MAXIMIZE YOUR BUSINESS CASH FLOW

Effectively managing cash flow is the key to ensuring you have enough money to meet your financial obligations.

Every organization's success depends on having reliable cash flow—and making the most of it. If you're feeling a pinch these days, you're not alone. Answer the seven questions below to determine if there may be a hidden opportunity to maximize your inflows and outflows.

1 How do you collect payments from customers, and what is the average number of days it takes to collect your payment?

Most businesses expect payment within 30 days, but you need to be smart about your collection process. For starters, inform your customers of the payment methods you accept. The greater the number of options, the easier it will be to collect payment. You'll make collection even simpler—and less prone to errors—by using an automated invoicing system. You'll also be able to send automatic reminders.

2 How do you pay your vendors, and how many days after receiving your invoice should you make a payment?

The key to efficiently paying your suppliers, while maximizing your cash flow, is to put in place a systematic vendor payment system. That should start with your initial order, then move on to creating a purchase order, receiving an invoice from the supplier, and, finally, making a payment.

If you tend to have more cash during certain times of the month, try to schedule your payments for those periods. A word to the wise: If you want to stretch out the time it takes to send a payment—and hold onto your cash for as long as possible—electronic payment is your friend. That's because you can wait till the last minute to pull the trigger. Another option is to use a business credit card with a grace period, which can serve as a de facto interest-free loan. Just be sure to pay the statement balance on time to avoid interest fees. Our One Card program is another option for businesses with large dollar spends looking for a customized rebate program.

3 What are your short-and long-term cash flow projections, liquidity needs, and risk tolerance?

To get a handle on your expected cash flow, you'll need to forecast short-term cash inflows and outflows, like taxes and payroll, as well as long-term cash flows occurring in the next 12 to 24 months. Base your short-term predictions on such information as historical data and assumptions for the future. Because long-term forecasts can span several years, they help you to get a firmer grasp of future investment returns.

At the same time, understanding your liquidity needs—your ability to quickly turn assets into cash to meet your short-term obligations—is also important. A related issue is your risk tolerance—how much cash on hand you feel you should have. To that end, evaluate your short-term and long-term cash commitments and anticipate other liquidity needs, like purchasing or upgrading equipment, to decide on the right amount. The lower your risk tolerance, the more liquid you'll want to be.

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4 How do you currently mitigate fraud?

Maintaining a reliable level of cash flow requires protecting it from the risk of fraud. That means analyzing elements both inside and outside the organization that could expose the company to potential vulnerabilities. Then, you can introduce procedures for reducing both the possibility and impact of fraudulent activities.

5 What are your cash management challenges?

Most companies face a variety of challenges managing cash flow, anything from using manual reporting processes to keeping accounts at multiple banks. For example, if you have money at different banks with a variety of reporting formats, you can introduce a cash management system that creates a standardized view of all your accounts.

6 Do you have seasonal cash flow fluctuations?

If you run a business with predictable seasonal cash flow ups and downs, you need to learn how to even out your finances to weather times of slower demand. First, analyze key data, such as sales and overhead, over a period of a few years to determine precisely when business peaks and lags and how to budget for those times. Also, evaluate fixed costs, like rent, and variable costs, like inventory. Then, create a monthly and weekly forecast of cash inflows and outflows so you can pinpoint the amount of cash you should have on hand at specific times of the year.

7 How do you currently manage your surplus cash?

Smart cash management can help you to optimize excess cash. For example, you can use the money to establish an emergency fund to cover operating expenses in case of cash flow interruptions. Alternatively, you can invest the excess in short-term investments like certificates of deposit. Additional, longer-term solutions, such as our Cash Reserve Investment Management product can also help optimize return on excess funds.

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