

March 2019

What Small Businesses
Need to Know to
**EASE THE
CASH FLOW
CRUNCH**

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INTRODUCTION

Many people are motivated to start a new business to pursue a passion, to improve their work/life balance or because they have a great idea for a new product or service. It's exciting to start your own business, but it's also tough

to ramp up a new venture—and turning it into a successful, sustainable enterprise can be even more challenging.

Small business owners and decision makers rank attracting new customers and growing revenue as their top two business challenges (Figure 1).

Figure 1: Top Small Business Challenges (will recreate/polish chart for report)



Source: SMB Group SMB 360: Connecting the Dots Between Business and Technology Study (2019)

But while it's only natural to focus on building and growing the business, it's all too common to neglect another critical make-or-break factor: cash flow, or the money that moves in and out of your business. In fact, 60% of business owners have faced cash flow issues¹.

Insufficient cash flow can jeopardize your business. You may not be able to pay employees, vendors or yourself on time or have enough cash

on hand to take on a new project. In fact, the U.S. Small Business Administration (SBA) cites inadequate cash reserves and/or running out of money as a top reason that startups fail.

In this report, we discuss what cash flow is, why it's critical to get cash flow management right, the steps you can take to fix current cash flow problems, and strategies to improve cash flow going forward.

¹ Wakefield Research, Intuit Cash Flow Study, October 2018

CASH FLOW PRIMER

Cash flow is the money “flowing” or moving into and out of your business on a monthly basis (Figure 2).

- Cash comes in from customers who purchase your products and services. When customers don't pay at the same time they make a purchase, some of your cash flow will come from collecting accounts receivable.
- Cash goes out of your business when you pay for the things you need to run your business—whether for rent, equipment, supplies, employees, taxes or other expenses that are accounts payable.

If more money is coming into your business than going out, you have a positive cash flow and therefore enough money to pay your bills. When more cash is flowing out than coming in, you risk a cash flow shortage and may not have the funds you need to cover your expenses.

Figure 2: Cash Flow Basics



Keep in mind that your business can be profitable on paper but not have enough cash to pay the bills. This happens when you may have accounts receivable (money owed to you by customers) that you haven't collected yet.

A simple way to perform a cash flow analysis is to compare total unpaid expenses and purchases to total sales due at the end of each month. If total unpaid expenses and purchases are greater than total sales due, you have a potential cash flow issue. In this instance, you need to bring in the difference to stay even. If the cash shortage continues for a few months, you get further behind.



Reena Vokoun,
Founder and CEO,
Passion Fit

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Each month, I need to evaluate where to dial up and dial down in spending and make sure that we set funds aside in a way that we're not creating cash flow problems.



Tia Harrison,
President and CEO,
The Butcher's Guild

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Cash flow has pretty much been our major issue... it was always kind of a scramble to get capital, and when we took on this larger project to participate in the World Butcher Challenge, the stakes got higher because we had to invest to successfully compete.

WHY CASH FLOW IS SO IMPORTANT

Small businesses are vital to economic growth. 99.99% of all U.S. businesses are small businesses (fewer than 500 employees) and account for about 66% of net new job creation.² But according to the U.S. SBA, about one-fifth of businesses fail in the first year, about half fail within five years and only about a third survive 10 years or more.³

Having enough cash in reserve is critical to sustaining the business over the long haul. Cash reserves serve as a safety net—providing funds to draw on to cover monthly rent, salary and other ongoing expenses when business is slow. Yet most small businesses only have enough cash on hand to support 27 days of typical outflows—potentially jeopardizing the business should a disruption occur.⁴

Cash flow issues can be particularly vexing when you're starting a new business. You have to spend money to get the business up and running, but you're just starting to build a customer base and a reliable revenue stream. Seasonal businesses have significant income fluctuation over the course of the year and are also likely to face cash flow issues. But any business can find itself in a bind when economic slowdowns and industry downturns happen. Among small businesses that have cash flow issues, nearly one-third have found themselves unable to either pay vendors, their loans, or themselves or their employees (Figure 3).

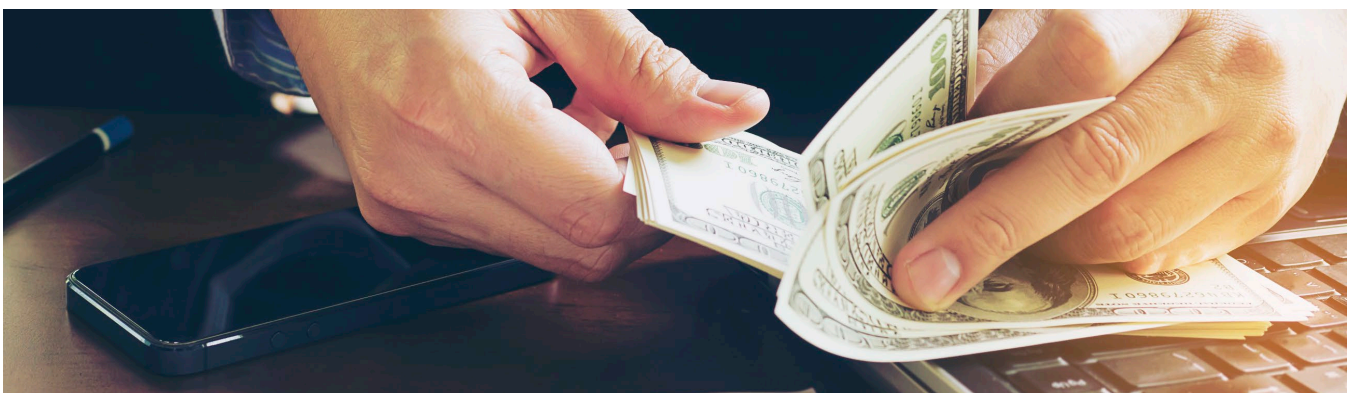
Figure 3: Impact of Cash Flow Issues on Small Businesses⁵ (will recreate/polish chart for report)

DUE TO CASH FLOW ISSUES, SMALL BUSINESS OWNERS HAVE SUFFERED IN MANY WAYS*

Top three ways cash flow issues have impacted small business owners



**Asked among small business owners at companies OF0-100 employees in the U.S., U.K., India, Australia and Canada that have had cash flow issues.*



2 U.S. Small Business Administration, [Frequently Asked Questions About Small Business](#)

3 U.S. Small Business Administration, [Frequently Asked Questions About Small Business](#)

4 JPMorgan Chase, Cash is King: [Flows, Balances, and Buffer Days](#)

5 Wakefield Research, Intuit Cash Flow Study, October 2018

As important, a lack of working capital can stymie your ability to grow the business. Among small businesses facing cash flow issues, more than a quarter have had to pass on or decline a sale. These lost opportunities take a toll on a company's bottom line: More than half of small businesses have lost \$10,000 or more because they had to forego projects and sales due to insufficient cash flow.⁶ If your small business declines a sale or project, competitors will step in with alternatives. Once they do, it will be difficult to woo customers back.

Finally, if you can't fund the technology, equipment, facilities or employees you need to expand your business, it's difficult to keep pace with customer demands and stay ahead of your rivals.



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Everything we do is handmade, and I can only make so many things myself. I knew that to grow I needed to hire someone, and that's where cash flow would come in. Now that I have added one person, I know that if I added more, we could do more, but I want to scale it in a manageable way to avoid cash flow problems.

– **Janna Willoughby-Lohr**,
Owner, *Papercraft Miracles*



⁶ Wakefield Research, Intuit Cash Flow Study, October 201

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Our business is self-funded, and having separate accounts for personal and business finances helps us to manage the business better. I know what business expenses we're paying for through earnings, and how much we may need or want to put into the business from our own savings.

– **Reena Vokoun,**
Founder and CEO, Passion Fit

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KEEPING TRACK OF CASH FLOW

You can't manage what you can't see and control. Having clear visibility into the money going in and out is essential to maintaining a healthy cash flow for your business.

Start by opening a separate bank account for your business. Because most owners bootstrap their new ventures with their personal savings, it's all too common for owners to use the same bank accounts and credit cards for business and personal finances. But this can get messy fast—and can make it difficult to get a clear picture of your business finances. Create a separate business checking account and credit card for business-related purchases and deposits. Many banks offer detailed reporting services to help you budget more effectively.

Put a system in place to manage cash flow. You can manage cash flow with paper, pencil and spreadsheets, such as SCORE's [cash flow management spreadsheet](#). But cloud-

based accounting software and bookkeeping services can automate and streamline cash flow management—saving you time and reducing the risk of errors.

Automating your books with cloud-based financial software gives you real-time visibility into your finances and immediate access to up-to-date, accurate information so you can track progress monthly, weekly or even daily. Look for solutions that automatically import bank statements, categorize expenses as you go and offer easy-to-use standard reports.

These automated tools can help quickly answer questions such as how many invoices are overdue, how much cash is tied up in projects, how much you're spending on different things, and how quickly customers are paying you. Some vendors are even embedding artificial intelligence (AI) and natural language processing (NLP) into their online accounting solutions, allowing users to query the system even more easily.

WAYS TO AVOID AND EASE CASH FLOW PROBLEMS

In addition to monitoring cash flow, there are many actions you can take to avoid or ease cash flow problems:



Maintain an account balance with at least two to three months of operating expenses. These cash reserves—whether from personal funds or credit—serve as a cushion for unexpected expenses or a downturn in the business.



Speed up accounts receivable payments. 33% of U.S. small businesses estimate that their company has more than \$20,000 in outstanding receivables.⁷ To speed up the receipt of payments, bill customers as early as possible. Think about adding options for early payment discounts and/or requiring an up-front deposit before you start work. Services such as QuickBooks Payments help small businesses get access to their money sooner by enabling invoices for next-day payment. Small businesses that invoice with QuickBooks Payments are three times more likely to be paid on the same day. QuickBooks Payments merchants also receive next-day funding for both their credit card and Automatic Clearing House (ACH) payments.



Control costs. Avoid impulse spending. Be on the lookout for ways to cut costs, such as buying in bulk at a discount for items you know you will use or buying refurbished instead of new equipment.



Sell assets you don't need or use. Liquidate equipment you don't use or inventory you can't sell to bring in cash and free up space.



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Everything I do—from wedding invitations to custom journals—is custom and specialized. If the client doesn't pay me, I can't sell it to someone else. So, I changed my payment structure...now I don't start work unless a client pays me up front.

— **Janna Willoughby-Lohr**,
Owner, Papercraft Miracles

⁷ Wakefield Research, Intuit Cash Flow Study, October 2018



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Turning to QuickBooks Capital was an easy decision to make to fund our competing in the World Butchery Competition in Ireland. The interest rate was low, and I knew that we would be able to pay it back easily...I would definitely do it again if we needed the capital.

– **Tia Harrison,**
President and CEO,
The Butcher's Guild



Consider financing. Almost two-thirds of small businesses have never applied for a loan or are not interested in taking out a loan.⁸ Many business owners are concerned about tedious application processes and high interest rates. But flexible, short-term, cost-effective financing options are increasingly available to small businesses. For example, QuickBooks Capital enables QuickBooks users to apply for a loan of up to \$100,000 in minutes. Intuit processes the loan the same day, and if approved, funds are deposited to a user's account within a few days. QuickBooks Capital has already provided \$200 million worth of loans to small businesses in the past since its inception.



Delay payables. Look for ways to hang on to your money for as long as possible. For example, many payroll services pull payroll from small business bank accounts up to 14 days in advance, but QuickBooks Payroll users can keep payroll money in their bank accounts up to payday if they complete payroll by 10 a.m. Eastern time—helping them to hold on to an average of \$9,000 more per month and to pay their teams faster than using comparable payroll services.



Accept more forms or types of payment. Make it easier for customers to purchase from you the way they want to—and potentially get paid faster, too. Consider adding new forms and types of payment that you don't accept today—such as mobile payments, PayPal, ACH and others that facilitate sales and speed payments.

SUMMARY AND PERSPECTIVE

Cash flow issues can create big headaches for small business owners, but there are some simple steps you can take to keep your cash flow healthy, put your business on track for long-term growth and gain peace of mind.

Cash flow planning should be a key element of your business strategy. Take a step back and reassess your spending and income patterns. Figure out ways to cut costs, keep money longer and get paid faster to create a healthier cash flow that will help you sustain and grow your business.

While you can track and manage cash flow with spreadsheets, doing so can eat up a lot of time and result in unnecessary errors.

Cloud-based accounting software helps you to automate your books and manage expenses and income more easily and reliably. As important, it can provide the insights and flexibility you need to guard against cash flow problems—and enable you to take advantage of growth opportunities when they arise.



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QuickBooks is a great tool to help you to really understand your cash flow—seeing exactly what your monthly expenses and payments are, and what incoming revenues and cash you have. It gives you a detailed view of how to manage that flow...and because it's online, I can access it anywhere on any device.

– **Reena Vokoun**,
Founder and CEO, Passion Fit

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