



PETRA PROFIT

4 TIPS ENTREPRENEURS AND CEOs CAN USE TO IMPROVE
CASH FLOW MANAGEMENT AND FORECASTING



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LIFE LESSONS for BUSINESS OWNERS

DAILY REPORTS AND FORECASTS CAN HELP BUSINESS LEADERS BETTER MANAGE THEIR CASH FLOW NEEDS

One of the biggest challenges many entrepreneurs and business owners face is understanding the important role that cash flow plays in building a company. Just as smart cash management can fuel a company's growth, poor cash management can put it out of business, even when sales are rising.

Knowing how to manage cash, especially during challenges times, is essential to building a successful business. It's a lesson I learned when I founded and built NationLink Wireless and it's something I stress to the leadership at member companies we work with at Petra Coach.

A WePay SMB & Money Survey found that 41 percent of small and medium-size businesses reported cash flow challenges. Here's another telling statistic from the report: 56 percent of business owners said the emotional impact of cash flow challenges is highly consequential or consequential.

As a business leader, it's virtually a given that you will encounter challenges managing cash. Here are four tips to help you manage your company's cash flow:

DETERMINE YOUR FINANCIAL KPIS

Every entrepreneur and CEO needs to be keenly aware of their company's financial performance – and that means having timely data at your fingertips. A financial dashboard with the right key performance indicators (KPIs) will help you evaluate the financial health and performance of the business. It will also serve as an early-warning system to identify potential challenges down the road.

Have your CFO or accountant (or whoever manages accounting and finance) build a report that includes KPIs pertinent to your business and industry, and have it delivered daily, or at least weekly, so you can see current data. There are a wide range of KPIs from which to choose, but here are a few important ones to include in your dashboard:

- Operating cash flow: shows an adjusted net income that factors in non-cash expenses (depreciation and amortization) and other items, such as changes to inventory, accounts receivable, and accounts payable.
- Gross profit margin: measures the percentage of revenue that exceeds the cost of goods sold; it gauges your company's ability to pay for other operating costs (sales and marketing, administrative, and R&D expenses).

- Days sales outstanding: shows the average number of days it takes your clients to pay their invoices; the lower the number, the faster your company is getting paid.
- Accounts receivable aging: lists invoices that need to be paid by your customers and how effective your accounts receivable team is in collecting hard-earned cash.
- Accounts payable aging: shows which bills your company needs to pay vendors.
- Inventory turnover (if applicable): calculates the average number of times in a year your business sells and replaces its inventory; the lower the number, the quicker your company is selling its products.
- Budget variance: compares actual results to budget totals; this is a necessary report that evaluates how your company is performing financially compared to forecasted results.

CREATE A CASH FLOW FORECAST

Once you have a financial dashboard built, the next step is to create a cash flow forecast. The forecast is an indispensable tool for monitoring and predicting the flow of money moving in and out of your company's bank account.

Build a week-by-week forecast to get a granular view of the cash needs of the business. The shorter the time horizon the more accurate your forecast should be – and the better you will be able to identify potential obstacles that may impede the growth of your business.

ENCOURAGE HONESTY & ACCOUNTABILITY

The most accurate cash flow forecasts are created when team members do not hold back information and freely share their predictions about how the company will perform in the future. As a leader, make sure you have built a healthy team (professionally, emotionally and physically) – that it's not a group of "yes" people who tell you what you want to hear. Keep your team engaged and regularly share information that will affect the forecast, such as winning a new client or the need to hire additional team members. Then hold everyone accountable, you included, to review the accuracy of the data used to create the forecast.

INCLUDE CASH FLOW DISCUSSIONS DURING YOUR DAILY HUDDLE

I've written before about the importance of the daily huddle, a key part of the Rockefeller Habits (pioneered by legendary industrialist John D. Rockefeller) that are outlined by Verne Harnish in his book, "Mastering the Rockefeller Habits"). Discuss the KPIs during the huddle. It's an efficient and effective way to cover a lot of ground on issues that are affecting cash flow.

Following these tips will make it easier to manage your company's cash flow and help you endure any dry spells when more money is leaving your bank account than coming in. You'll also have a better system in place to manage the financial needs of your company, which is always a key factor in growing a business.

This article originally appeared in BOSS Magazine.

THE PETRA EXPERIENCE

The Petra Experience is like a Mental Marathon of focused effort to create a specific set of priorities and a planned process to achieve them... as a team.

Looking to change your business life - forever?

The daily grind of growing a business is tough... it doesn't have to be that way. We work from our own business experiences while focusing on your business – as coach and an accountability partner. We implement the Petra Process in a way that ensures it “sticks” then we stay engaged to keep you on your path to success and less frustration. We don't want this to be just another thing you start – then it gets ignored and finally dies... let's stop that cycle in your business. The Petra Program 'clarifies' what is most important to be done – by whom, by when – **AND** creates an accountability structure to ensure **IT GETS DONE.**

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