Title:
Cash Flow Planning for Solo Professionals

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764

Summary:
Lack of cash flow planning is the reason why many businesses fail. In fact, many PROFITABLE businesses fail because of cash flow issues. Without adequate cash flow, you can’t pay your bills and you can’t make plans for your business.

Keywords:
Cash flow planning, budgeting, small business, solo professional, solo entrepreneur, financial planning

Article Body:
You’ve heard it a million times – cash flow can make or break a business. Lack of cash flow planning is the reason why many businesses fail. In fact, many PROFITABLE businesses fail because of cash flow issues. Without adequate cash flow, you can’t pay your bills and you can’t make plans for your business.

So… what is cash flow planning? Cash flow planning is projecting your future cash inflows from sales, services, and loans, and comparing them to your future cash flow needs (suppliers, salaries/wages, loan payments, taxes, etc.). The difference between the two is your net cash flow.

Why is cash flow planning so important? Cash flow planning can help you identify problems down the road, and fix them before they occur. Cash flow planning can also help you make decisions such as should I attend that conference I’ve wanted to attend, should I buy the new computer I’ve been wanting, or do I need to work extra hard this month to avoid a cash flow deficiency next month?

The first step in planning your cash flow is knowing where you spend your money! Solo entrepreneurs need to have a good grip on both their personal and business spending, as most solo entrepreneurs rely on their business income to meet personal finance goals (i.e., pay the bills!). So, you should track both your personal and your business spending, although I recommend that you keep them separate (that’s a topic all by itself).

What’s the best way to track your spending? You can use pen & paper, spreadsheets or a software program. The best method for you is the method that you will actually use on a regular basis.

You should project your spending for at least the next 12 months so that you include annual and other periodic expenses. If you are experiencing a cash flow crisis, you should track & project your cash flow on a weekly basis, instead of monthly.

If you are an existing business, you can project your cash flow for the next year by reviewing your expenses for last year. If you are a new business, you will need to estimate your start up costs in addition to regular operating expenses.

Start up costs include inventory, legal expenses, advertising, licenses & permits, supplies, and many more costs that you may not have thought of. To research startup costs you should contact your local Small Business Development Center, contact a SCORE counselor, join groups of similar business owners, and read as many books or articles you can find on the subject.

To improve your cash flow, you should:

1. Complete the first 3 steps. You have to understand cash flow planning, track your cash flow, and project your future spending needs before you can improve your cash flow.

2. Create best and worst case scenarios and create appropriate responses to both scenarios. For example, if your best case scenario is to increase sales by 50%, how will you use the profits? Will you put the profits back into the company by investing in new equipment, training, etc.? If your worst case scenario is a drop in sales by 50%, how will you continue to cover your monthly expenses? By planning for the best and worst case scenarios, you’ll be ready for any situation.

3. When estimating your future income, realize that some people will pay late, and account for that fact in your projection.

4. Charge what you’re worth. Many businesses, especially service professionals, under-charge when they are first starting out. This is a great way to go out of business. Make sure you are charging what you’re worth, and remember you’re in business to make money, not to give your expertise away for free.

5. Watch your business spending. Focus on the value the item brings to your business, and avoid lavish spending (i.e., do you really need the fastest,

newest computer available?).

6. Don’t hire until necessary. Consider using virtual assistants or temporary employees before hiring permanent employees.

7. Give incentives for early payment for products and services. On the flip side, chase down invoices the minute they’re late. Charge interest or late fees to encourage timely payments.

8. Update your cash flow regularly. Your cash flow plan will change frequently as your business grows. You may want to update your cash flow plan weekly when you first get started, then switch to monthly once you’ve got a good handle on your cash flow.

Remember - whether you are a new or growing business, your cash flow projection can make the difference between success and failure.