The 6 steps of cash flow analysis

A crucial step in setting up your business for long-term success is analyzing your cash flow. That is, it's important to understand what's coming in and what's going out.

But how do you do it? Through information reporting, you can quickly review your daily transactions and get a snapshot of where you stand at any point in time. Ideally, you want to have a system in place where you can:

- Track your cash flow
- View your day-to-day transactions
- Understand your pay frequency, or how often you're getting paid
- Understand your income vs. expenses
- Know your current cash position

Manage Cash Flow in 6 Simple Steps

Cash flow planning involves three elements: the amount of cash coming in, the amount going out and the cash you have on hand. Even if you're a profitable venture, if you have more cash going out than coming in, you may find yourself in a tough situation.

Without cash on hand, you may not be able to meet your business obligations or have the funds needed to make investments—and you may need to borrow money to stay afloat. Here are six steps that can help you get a handle on your cash flow:

① Invoice more frequently.

Are you invoicing at the end of the month? Consider invoicing after you send out deliverables for faster payment. You may even consider invoicing biweekly instead of monthly. As a small business owner, you set the rules with clients and customers, so set a schedule that supports your cash flow and business.

② Increase your rates.

Check in with your price points quarterly and adjust for supply and demand, as well as for inflation.

③ Bootstrap your business.

Limit your expenses and only invest in exactly what you need.

④ Sync up your payments and expenses.

If possible, align your due dates for credit card payments and other expenses with when you typically get paid. This can help you manage accounts payable and maintain sufficient cash flow to keep your business running.

⑤ Build an emergency fund.

Protect yourself by building an emergency reserve of six to 12 months of expenses (socked away in a savings account) to bridge the gap between pay periods. If you don't have that much capital saved up, consider a business line of credit to fill the gaps.

⑥ Don't forget about your taxes.

Save up so you have enough to make your regulatory tax payments, and make sure you're maximizing all tax deductions and deferrals.

You can take the reins of your business' cash flow by asking the following questions:

- What's the average income you produce each month from sales?
- What are your recurring expenses?
- What are potential one-time expenses that come up?
- What's your average profit each month? (calculate income minus expenses)
- How long does it typically take you to get paid?
- When, and how often, do you send invoices?
- Are there gaps between how much you earn and how much you spend?

Answering these questions can help you get a glimpse into some cash flow problem areas that your business may face. As a small business owner, it's crucial for you to review the numbers regularly and perform a cash flow analysis, which will give you an accurate picture of what you are bringing in and what you are spending.

BMO Harris Bank®
We're here to help.™