4 Crucial Signs That Your Small Business Needs Funding

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Every small business can agree that securing funding is vital for a small business to grow. Whether you are a fledgling start-up business launching a new product or service, or an established small business striving to maintain profitability, cash is king when it comes to driving the progress of operations.

Every day, small businesses face unforeseen challenges, with shrinking margins and economic competition making it crucial to allocate sufficient cash flow for a business's financial health. According to a study by U.S. Bank, 82% of all failed businesses are due to poor cash flow management or a lack of a grasp of cash flow and its importance to its business.

As a business owner, how do you avoid these catastrophes? With a staggering 90% of all start-ups failing, how can you proactively identify the signs that indicate the need for funding and stay ahead of these warning signals? Here are four signs indicating that it's time your small business needs funding.

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Experiencing gaps in cash flow

A cash flow gap clearly indicates that your small business requires a funding boost, which occurs when a business pays out cash for expenses but does not receive the expected inflow

of money within a reasonable timeframe.

A prime example of a cash flow gap is a business that needs to purchase supplies to create its products to generate an inventory. After spending the cash on supplies, there is a delay in receiving payment from customers, creating a gap between the outflow and inflow of cash. For instance, if customers pay for the inventory after 30 days (or even worst late payments), the period between the purchase of supplies and the receipt of payment creates the cash flow gap. Consistent widening cash flow gaps can leave your business strapped financially, potentially putting it in a dangerous position if not addressed.

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Seasonal downturns in the business

Seasonal fluctuations pose significant cashflow challenges for many businesses. A typical example is a restaurant operating on a beach in Cape Cod, Massachusetts. During the summer peak months from Memorial Day through Labor Day in September, the restaurant can encounter an endless stream of customers fleeing to the restaurant. Despite an influx of cash coming in, your business could face cash flow challenges between a surge in profits during peak seasons but struggle to maintain financial stability during off-seasons.

With seasonal downturns and limited cash flow, the challenges of paying overhead costs with employees, rent, utility costs, etc., can create financial instability. Without proper cash flow forecasting, how can your business maintain operations and overcome these financial challenges during the off-season?

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The business needs to change

Every business needs to evolve and adapt to new challenges, as they cannot continue to operate with the same employees and equipment indefinitely. At some point, you need to invest back into the business to promote growth and development.

For instance, a landscaping company has an initial upfront cost of purchasing equipment before it can hit the ground running. As the company progresses, the equipment may deteriorate and require upgrading to continue serving existing customers or expanding into new areas. Hiring skilled employees or investing in new equipment upgrades will be needed to help expand your capacities. In order for your business to meet these needs, It’s essential to reserve sufficient funds to meet these necessary investments.

Opportunities happen

Expecting the unexpected and be ready no matter what is the heartstring of all business owners. It’s unclear what the next card in the deck will reveal, especially when exciting opportunities arise. Hence the need for agility despite the size of your businesses. Small business owners must be particularly vigilant about having enough capital to invest in new opportunities that arise.

In this constantly changing landscape, your business needs to be in a strong financial position to take advantage of opportunities as they arise. Whether it’s purchasing another business, opening a new location, launching a new product or the immediate need for available capital investment, the ability to act quickly can make all the difference. Without sufficient cash, your businesses can struggle to capitalize on these exciting opportunities, resulting in missed opportunities or financial losses.

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A loan is not the only answer

The immediate response of a business owner is to reach for a loan application to obtain an injection of cash. However, a business loan isn't always the best or only solution. One approach to improving your business's financial situation and reducing the reliance on loans is to implement effective cash flow management tools.

Cash flow tools can help small business owners track their cash flow, identify high-risk indicators and accurately forecast future financial health. These tools can determine precisely how much capital is needed and how an influx of cash would impact the overall health of your business. By maintaining a healthy cash reserve and minimizing unnecessary expenses, small business owners can make smarter financial decisions, reduce their reliance on loans and improve your business's financial stability.

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