

4 Ways Entrepreneurs Can Deal with Cash Flow Problems in 2023

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Cash flow problems are an unfortunate – but all too common – reality for entrepreneurs and small to medium-sized businesses (SMBs). This is especially clear in times of uncertainty and rapid change. The Russo-Ukrainian War, for example, has been particularly hard on SMBs due to rising fuel costs, government sanctions and global supply chain disruption.

Cash flow problems can have many causes, but the end result is always the same – a lack of available liquidity to cover daily operational costs, such as paying suppliers and meeting payroll obligations. Failing to meet these basic operational needs impacts a business's ability to achieve or maintain profitability, which often leads to knock-on effects of its own.

But it's important to realize that cash flow problems are not inevitable. And when they do occur, they are not always insurmountable. That said, here are a few possible solutions for SMB owners when dealing with cashflow problems (or even avoiding them entirely).

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1. Simplify your billing & invoicing process

According to a YouGov survey, 55% of U.S. SMBs are currently waiting on money that is tied up in late invoices. And the SMBs that are waiting have been waiting for a long time – 25% of U.S. SMBs are paid more than 20 days late on average.

Making it easy and rewarding for your clients and customers to pay you quickly is one of the best ways to minimize cash flow problems. There is no silver bullet here – each business needs to find the solution that works best for them.

One of the most effective methods is overhauling your payment system to make it simpler for clients and customers to make timely payments. This might mean adding one-click payment links to invoices or allowing alternative payment options (e.g. direct debits, installment payments or recurring payments).

Another effective method involves updating your payment terms to include incentives for early payments and penalties for late payments. For example, you might offer a 2% discount on invoices paid within 5 days and charge 2% interest for each month an invoice payment is late.

This two-pronged approach helps encourage customers and clients to prioritize timely payments that support healthy cash flow.

2. Create a cash flow forecast

A cash flow forecast is a document (usually running for a period of 12 months) that estimates monthly inflows and outflows. It's an essential tool for any SMB since it allows you to identify potential cash flow problems before major issues arise, identify the best time for large purchases or

investments and gauge the impact of changes in income or outgoings.

Creating a cash flow forecast is relatively simple. You can start with a specialized accounting tool that has preloaded reports and features for cash flow management and forecasting. This automates the process and makes it much easier for businesses to stay on top of their cash flow.

Alternatively, you can create a forecast manually in Excel or Google Sheets – all you need is a clear overview of your expected and actual income, expenditure, assets, and liabilities.

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3. Build up cash reserves

In personal finance, the concept of an emergency fund is relatively common knowledge. Building up a cash reserve for your business works in much the same way. By setting aside money in a separate, interest-bearing account, SMBs can ensure they always have access to the funds needed to cover costs and eliminate the need to strike off the business.

The size of your emergency fund will depend on factors like the nature of your business and where it's located. As a general guideline, it's recommended to set aside around 2–6 months of essential operating costs.

Building up a cash reserve can be difficult, but it's worth persevering with. It's one of the best ways to protect your business from shutting down and other serious problems related to poor cash flow management.

4. Negotiate with creditors

According to the most recent available data, 73% of U.S.-based

SMBs are in debt – whether to banks, suppliers or creditors.

When cash flow slows, it might be time to negotiate the terms of your existing contracts. This can be tricky, since SMBs may not have the same negotiating power as larger businesses. That said, some suppliers are more than happy to strike a deal – especially if you explain your situation honestly and show flexibility.

You may be able to pay off debt with smaller (but more frequent) payments, negotiate reduced interest rates, barter goods, and services or negotiate payment terms for large orders.

Similarly, if you're expecting a bill but cannot pay it in full, you might be able to strike a deal with your creditor. For example, you could offer to pay part of the total now and then make regular payments until the debt is cleared. As always, communication and honesty are key!

Cash flow management is a critical part of running an SMB – and it always pays to be proactive. By following the steps outlined above, you can take control of your cash flow and prevent strike-offs. Additionally, as with any important business process, it's worth seeking professional advice or using specialized tools to help streamline the process. This can make it easier to keep track of cash flow, as well as spot potential problems before they become major issues for your business.

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