

Your Business Could Be Headed for a Cash Flow Crisis If You're Not Following These Steps



Opinions expressed by Entrepreneur contributors are their own.

According to a recent survey, small business owners are feeling more optimistic about the economy and the performance of their companies. The MetLife and U.S. Chamber of Commerce Small Business Index for Q2 2024 found that 36% of SMBs believe that the U.S. economy is in good health, and 42% say that their local economy is healthy – both figures are up 12% from this time last year. 73% of SMBs said that their cash flow is currently healthy – up 6% from the end of 2023.

However, 55% of SMBs said that inflation is still the biggest

challenge they face. If your company is still struggling to control costs and your customers are becoming more price-sensitive, you could be vulnerable to a cash crunch. Fortunately, the latest economic data seems to indicate that inflation is cooling off fast. The Fed cut interest rates in September with the goal of helping the economy achieve a “soft landing” to overcome inflation without going into recession.

Lower borrowing costs and lower inflation in a “soft landing” economy would be great news for SMBs. But even if your business is currently in a good place with cash flow, it could be a great opportunity for SMB owners to revisit cash flow management practices.

Let’s examine why SMBs need to act now to shore up their cash flow, keep their businesses in the black and support growth in 2024 and beyond.

Related: 4 Cash Flow Trends To Know About in 2024

Why SMBs are at greater risk

SMBs, just by nature of their size, are typically at higher risk for cash flow shortfalls than large companies. Here are three key reasons why:

Harder access to credit: SMBs are underserved by traditional bank lending and can have a harder time getting access to affordable lines of credit. The Federal Reserve 2024 Small Business Credit Survey of Employer Firms found that 29% of small businesses had difficulty accessing credit in the past 12 months. With a lack of access to credit, it’s no surprise that this Fed survey also found that 49% of small businesses experienced uneven cash flow, and 52% had difficulty paying operating expenses.

Slow and late payments: Unfortunately, SMBs are also vulnerable to the vagaries of late payments and slow-paying

customers. The Fed Small Business Credit Survey found that 39% of small businesses said they've experienced challenges with customers being slow to pay, and 18% reported challenges with delays in settlement or availability of funds.

Seasonal cash flow trends: Smaller companies that rely on seasonal revenues can also be at higher risk of cash flow challenges. For example, clothing distributors and manufacturers could see a surge of demand before the holiday retail season, while garden supply businesses could see slower revenues during the cold-weather months. Seasonal cycles make it especially important for SMBs to build resilience into their cash flow and maintain adequate working capital year-round.

Despite the challenges of managing cash flow, SMBs are not helpless. They have a few powerful advantages and resources at their disposal to tackle cash flow challenges.

How SMBs can overcome cash flow challenges

Here are a few cash flow management strategies that more SMBs should consider as part of improving their business's financial performance.

Revisit your payment terms: Smaller businesses thrive on customer relationships, but sometimes, their goodwill and generous payment terms are taken advantage of by slow-paying clients. It's important for SMBs to strike the right balance between an understandable emphasis on retaining customers and the need to implement realistic payment terms and polite (but firm) collection policies.

Lean on customer relationships: Some customers might not realize that their slow payments or generous payment terms are becoming a problem for your business. Communication is

critical. SMBs should explain to customers why timely payments are critical to the health of their business and their ability to continue to be good partners. Look for ways to offer discounts or deliver value-adding services in exchange for faster payment terms. Many B2B customers who truly value your products or services as a vendor or supplier will not want to lose you; they want to retain good suppliers. Sometimes, better payment terms for your business can be a win-win for everyone.

Look beyond big banks for working capital and small business loans: SMBs tend to have a harder time getting approved for credit at large banks. Even with easier-to-get SBA loans, the application process could take weeks or months, and even if your business gets approved, the amount of credit may be less than you need. Big banks aren't always set up to handle the lending needs of smaller businesses, and as a result, many great companies unfortunately go without the capital they need to grow – or stay afloat.

Instead of big banks, more SMBs should consider getting working capital loans and lines of credit from non-bank lenders or specialty lenders. Non-bank lenders can be more flexible in how they assess a business's creditworthiness, with faster approvals and a different lens of criteria from an underwriting standpoint. Unlike the narrow credit standards of a traditional bank, non-bank lenders take a more holistic look at the SMB's performance and the business owner's vision and expectations to help unlock opportunities.

There are many reasons for SMB owners to be hopeful about the economy and their cash flow in 2024. But whether your cash flow is adequate, ample or struggling, now is a good time to revisit your payment terms, encourage your slow-paying customers to pay faster, and consider a different way of getting flexible access to working capital.

<https://www.entrepreneur.com/money-finance/your-business-could>

-be-headed-for-a-cash-flow-crisis-if/480004