



A Guide to Cash Flow Management

Tips for handling cash in, cash out, and cash at rest



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First-year challenges

Small-business owners in nearly every industry cite cash flow as the most formidable hurdle to success.

In an exclusive Kabbage survey of nearly 500 business owners from a variety of fields, 30% cited cash-flow as their biggest challenge in the first year, and 40% wound up borrowing money. In industries where business is seasonal and payment processes are protracted, keeping up with loans can be a challenge.

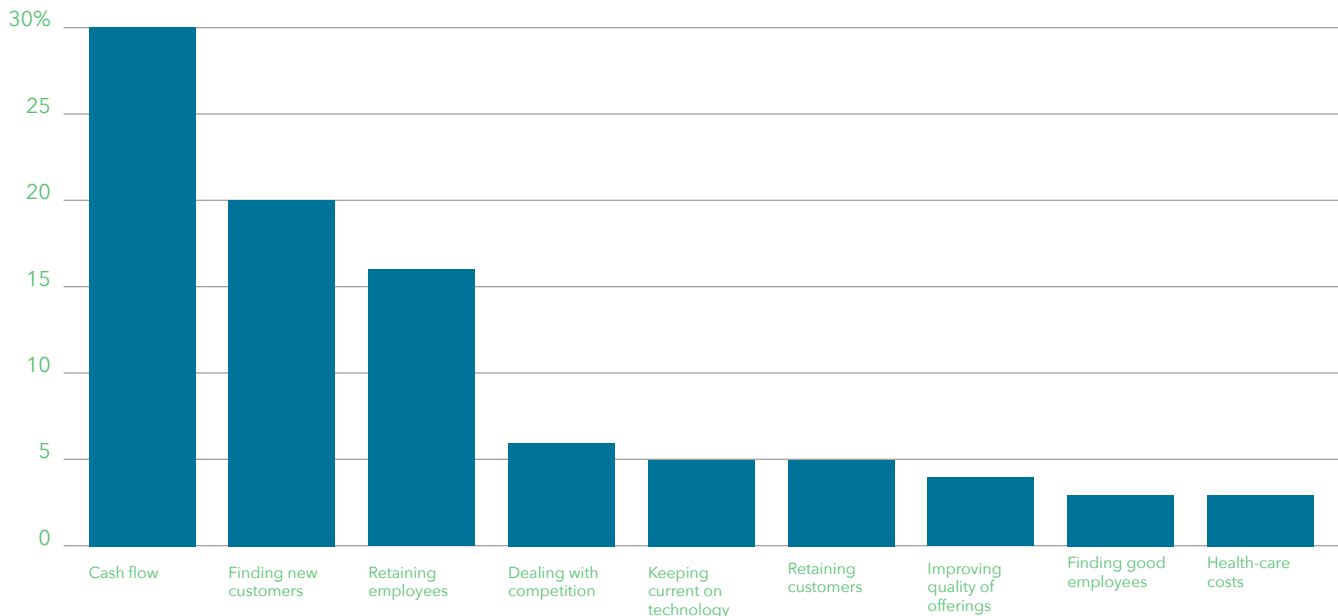
To help stem that tide, many successful business owners take precautions early on, making sure they keep as much cash as possible on hand, securing a line of credit, and picking up extra jobs in anticipation of the slow season.

60% of unsuccessful small businesses cited cash flow as the primary reason for their closure

“Every book I read said cash flow is king. If I was going to rewrite that statement, I’d put flashing red lights around it. Secure as much cash as possible.”

Tony Hernandez, owner, Cienfuegos Cuban Cafe, Los Angeles

BIGGEST CHALLENGE DURING FIRST YEAR IN BUSINESS





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Figure your benchmarks

While cash-flow issues affect every small business, they're particularly tricky for those in labor-intensive industries like restaurants and construction.

According to a 2016 J.P. Morgan study of small-business transactions, restaurants have the most volatile ledgers, averaging \$957 in daily inflows versus \$968 in daily outflows.¹ Construction businesses average \$445 in inflow and \$438 of outflow, while retail averages were \$409 and \$413. For beauty and wellness businesses, those numbers were \$216 of inflow and \$219 of outflow.

Businesses in labor-intensive industries tend to possess far less of a cash buffer than those in capital-intensive fields. The most successful entrepreneurs in those labor-intensive fields tend to have a strong sense of their daily inflow and outflow, and they find methods to minimize the volatility.

The average small business has enough cash flow to cover 27 days of expenses

"For me, the first two years in business have been all about bridging cash-flow. Long term, what's on my strategic radar is to look at other avenues of the business to level out the peaks and valleys."

Greg Mills, owner, M3 Metals, Phoenix

BUSINESS OWNERS' SINGLE BIGGEST THREAT

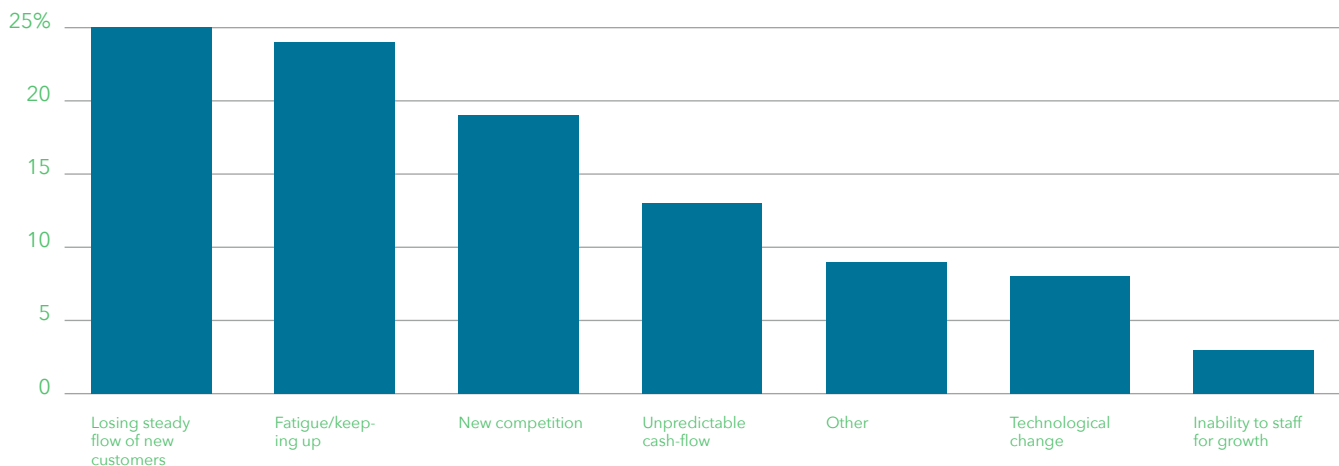


FIGURE YOUR BENCHMARKS

¹Source: JPMC





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Devising innovative strategies

Only 39% of small-business owners consider themselves generally knowledgeable about accounting and finance. In addition to hiring accounting professionals and relying on technology and software, those business owners often devised their own cash-flow strategies once they gain a firmer grasp of their situation. Perfecting these strategies is a matter of trial and error.

Business owners talk about invoicing in smaller increments, developing relationships with vendors in order to gain more flexibility, and finding “anchor clients” who offer steady income—all in the service of cushioning cash-flow issues.

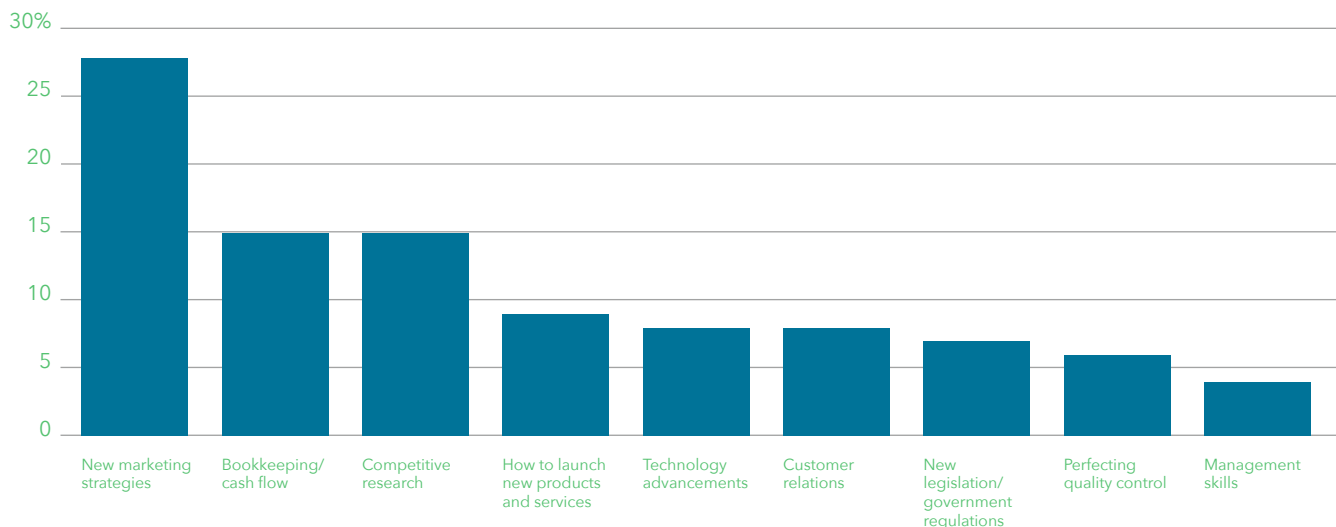
More than three-quarters of small-business accountants also now offer additional services like cash-flow consulting to help their clients devise an overarching plan for their cash in, cash out, and cash at rest.¹

44% of small businesses cite cash flow as one of their top accounting challenges

“It took me a few bad years to figure it out. But by invoicing more often, instead of a customer coming up with \$25,000 up front, they can pay me \$10,000. They’re not having to write those big checks to me up front, which can be scary.”

John Montijo, owner, John Montijo Construction, Staten Island, NY

WHAT BUSINESS OWNERS WISH THEY WERE MORE KNOWLEDGEABLE ABOUT AS THEY PREPARED FOR GROWTH



¹Source: Paypie





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Loans and lines of credit

Once small-business owners master their cash-flow, growth becomes the next priority. This often means gaining access to additional capital.

While only 5% of businesses surveyed by Kabbage said that increased financing led to their biggest jump in profits, 20% said that in looking ahead, they needed more money in order to execute their long-term goals. In fact, nearly three-quarters of small-business owners said their need for liquidity had increased at least slightly over the past year.¹

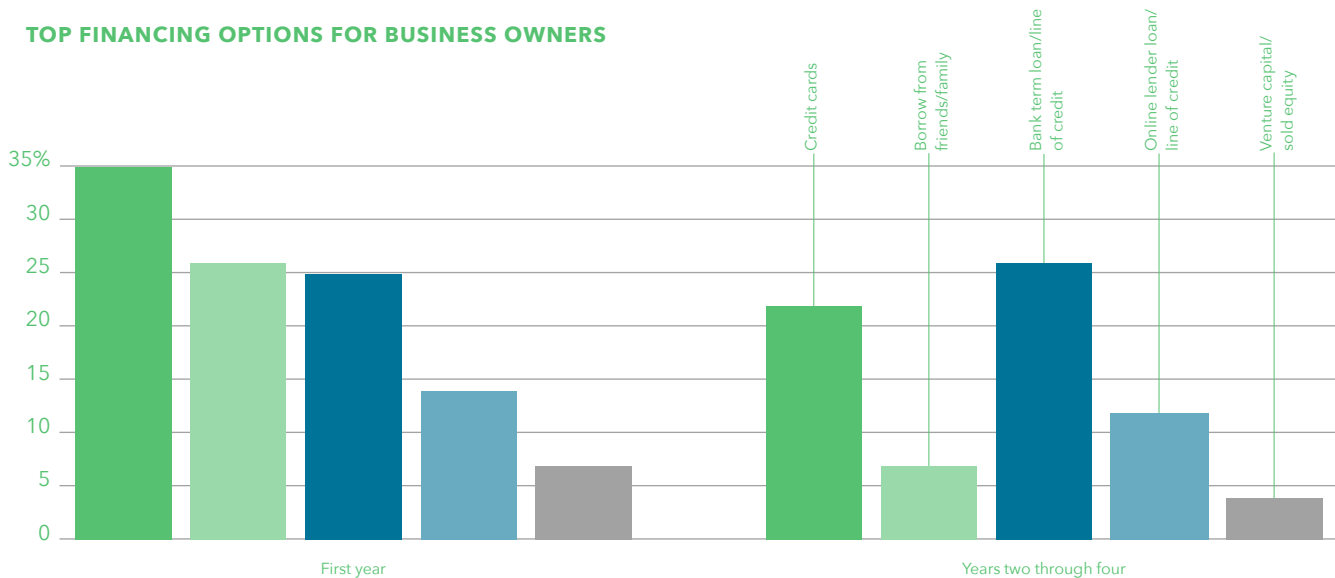
Loans and lines of credit can be difficult to come by in the early stages, so a number of business owners turn to friends and family or utilize credit cards. But according to one study, 60% of businesses with revenue of less than \$100,000 are approved by small banks. And small business owners are also turning to online lenders in record numbers.

The number of small-business owners who used funding sources other than cash flow grew 40% from 2016 to 2017

“Having a line of credit allows me to make sure that I don’t make a rash or inappropriate decision. It keeps you moving forward instead of retreating.”

Wes Dunn, owner, Dunn’s Attic & Auction House, Ormond Beach, FL

TOP FINANCING OPTIONS FOR BUSINESS OWNERS



LOANS AND LINES OF CREDIT

¹Source: C2FO





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Utilizing additional cash for growth

Once businesses have found their footing and acquire access to additional cash, the question becomes: What's the best way to spend that money going forward?

The majority of small-business owners said they would use increased cash-flow to spark growth in some way.¹ 33% would purchase additional inventory and equipment, 28% would expand operations, and 10% would invest in employees.

Whether ramping up technology or inventory, focusing on marketing and finding new customers, or hiring new employees, successful small-business owners say they succeeded in large part because they were willing to invest their profits back into the aspect of the company they felt needed the most attention.

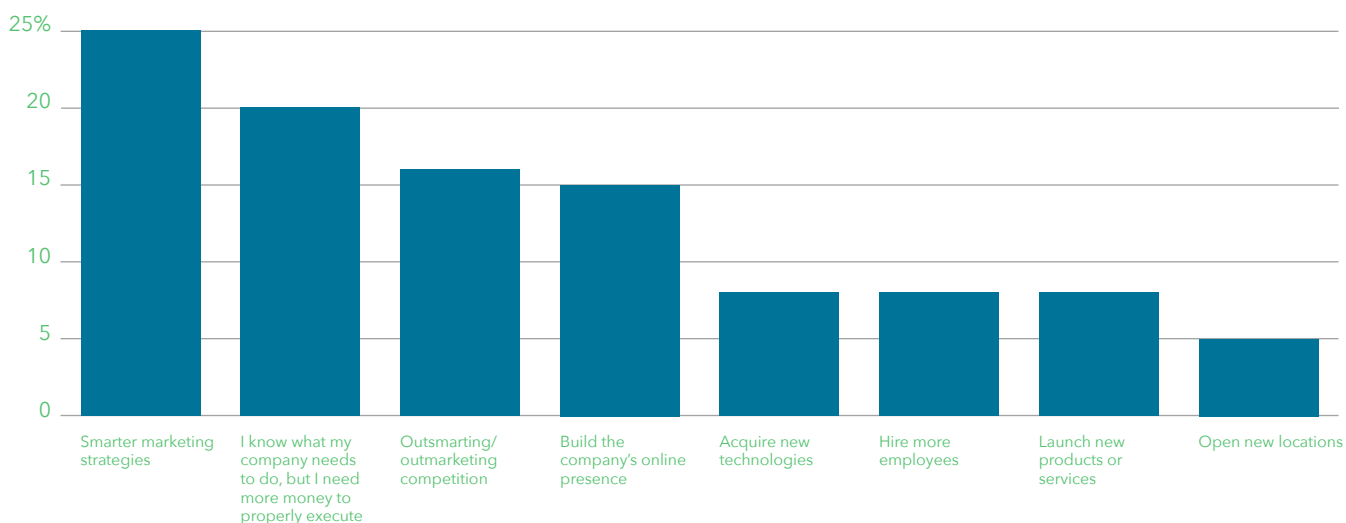
For every dollar lent to small businesses by online lenders, sales increased by \$2.31

"If I can get a capital stimulus, hire 10 or 15 people and train them all at once, it'll take about four months for them to get up to speed. And then we can make a big push toward more growth."

Kevin Hennessey, president, Brabo Payroll, Plymouth, MA

UTILIZING ADDITIONAL CASH FOR GROWTH

ASPECT BUSINESS OWNERS FOCUS ON AS COMPANY CONTINUES GROWTH



¹Source: C2FO





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