Managing Your Cash Flow
Four best practices for putting your cash flow to work for your business

For many small business owners, the saying that “cash is king” rings true — SunTrust Research of 397 small businesses shows that managing cash flow more effectively is the top action planned by owners for the coming year. For most business owners, strong cash flow is a higher priority than profitability, because it means having enough cash on hand to meet payroll, pay supplier bills and take advantage of growth opportunities. Fifty percent of failed businesses cite lack of proper cash management as the cause of their demise.¹

Fast-growth companies report stress levels that are 21 percent lower than other companies, and their approach to cash flow management is a factor. High-growth businesses rank cash flow management as a priority among their overall goals. Three-quarters of high-growth businesses understand the value of regular cash flow to their bottom line and are focused on managing cash more effectively in the coming year. Focusing on cash flow pays off. 72 percent of high-growth companies report improved feelings about financial well-being in the past year.

Watching the fastest growing companies and discerning their best practices may provide sources of ideas for all small business owners. Whether you run an earlier stage company looking to stabilize cash flow or a more mature one looking for new ideas, studying the strategies of high-growth companies can help in harnessing cash flow for your business.

Managing Cash Flow by the Numbers

**Key SunTrust Research Findings**

**Percentage of business owners listing managing cash flow as a top strategy**²

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Strategies for companies focused on controlling cash flow as the top priority³</th>
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<tbody>
<tr>
<td>64%</td>
<td>Manage financial operations more effectively (44%)</td>
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<tr>
<td>76%</td>
<td>Develop financial game plan for your company (29%)</td>
</tr>
<tr>
<td>50%</td>
<td>Increase amount you are saving (25%)</td>
</tr>
<tr>
<td>21%</td>
<td>Conduct more financial services online (21%)</td>
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</tbody>
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¹ Carbago, Marco, 5 Bad Habits That Hurt a Company’s Credit Ratings, SBA.gov, 10/11/16, accessed on 5/14/2017 at https://www.sba.gov/blogs/5-bad-habits-hurt-companys-credit-ratings.
² 2017 SunTrust nationwide survey of 397 small business owners.
³ Note: High-growth companies are the 20 percent of companies surveyed who experienced the greatest revenue growth.
Better cash management: using cash more effectively

Most business owners (54 percent) say they are stressed about their businesses. That stress leads to choices about top goals, which are to increase profitability and improve the financial well-being of their businesses. Scratch beneath the stated goal of growing core profitability, and you quickly find that increasing cash flow and managing that cash flow more effectively are the keys to strengthening the business and reducing owner stress.

Business owners state that managing cash flow more effectively is the number one overall action that they are pursuing. Fast-growing businesses are even 20 percent more likely than others to pick effective cash management as a top action.

### Top actions to improve cash flow
- Improve productivity
- Forecast cash more closely
- Offer my customers different forms of payment
- Control employee spending

Businesses with an eye on cash flow are either trying to generate more cash to support the business or are working to manage the cash flow they already have more effectively. Finding more cash flow starts with working on productivity improvements. Over half of owners surveyed chose improved productivity as their number one goal to improve cash flow. Actions to forecast cash and accelerate receivables with different forms of payment fit prominently in cash flow actions. Controlling employee spending with authorization, approvals and limits is high on the list as well. High-growth businesses showed an even stronger preference for these same cash flow improvement actions.

### Top actions to manage cash flow
- Use online banking
- Actively manage receivables and payables
- Keep cash in a reserve account to cover shortfalls
- Use mobile banking account access

Actions to manage existing cash flow more effectively include using banking access tools like online banking and mobile banking. Actively managing receivables and payables — two core components of working capital — is a top action to keep cash flowing. Building a reserve account can help cushion cash fluctuations during the year.

To support small businesses as they work to put their financials in order and manage cash flow more effectively, SunTrust has outlined four action steps to both help with improving and more effectively managing cash flow:

1. Develop and manage a financial game plan for your business
2. Actively manage your receivables and payables
3. Conduct more financial transactions online
4. Use extra cash flow to increase savings and reserves

### #1 Develop and manage a financial game plan for your business

A financial game plan will encompass goals for most aspects of your business, the most important of which is how you budget and manage your cash.

The first step in creating an effective game plan is to place a greater priority on measuring and managing cash flow. Actively monitoring and managing cash, particularly through online banking systems, provides you and your finance department with quick, secure and up-to-date information on how much cash you have on hand across your accessible accounts. Then, you can begin to identify and understand when your cash arrives and where it goes every month.

Identifying spending and income stream trends are equally important to managing cash flow. Most high-growth companies create and review monthly business cash flow statements to help them optimize their business operations. The more frequently your business reviews cash management productivity, the easier it will be to identify areas that may need improvement or pockets of unused cash that can be put to more effective use.
#2 Actively manage receivables and payables

Payments are at the core of cash management and one of the places in the cash flow cycle where companies can have the most control. If you pay suppliers faster than your customers pay you, cash outlays get ahead of cash coming into the business, and your payment terms and conditions lose alignment. Finding and using tools that will allow you to actively manage both inflows and outflows is vitally important to the health and profitability of your company:

- **Collect payments electronically.** Accelerating receivables enhances cash flow and gives you better control of receivables. The two top reasons to move away from paper receivables and more toward electronic methods are efficiency and cost reduction. Studies have found it costs up to 10 times as much to process paper checks — $3 per check considering all costs — than it does to process electronic payments.4 Seventy-nine percent of fast-growing companies monitor the cost to collect each revenue dollar.

- **Effectively manage vendor and supplier relationships.** Payment trade terms can play an important part in your cash flow computations. Asking for early pay discounts or negotiating for longer payment terms to match customer receivables effectively maximizes your cash flow. Fast-growing companies are four times more likely to ask suppliers to extend payment terms.

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*2015 AFP Payments Cost Benchmarking Survey, Association for Finance Professionals (AFP), 2015.*
#3 Use online tools for financial management

The significant advances in online banking technology have, over time, shifted financial access to online systems. Most business owners surveyed use online banking access to manage their business finances. Having a single interface that provides up-to-date access and accurate overviews of cash and investments for all linked accounts offers business owners a simple avenue to monitor their cash position and transfer funds between accounts quickly. Staying connected from any location via either online banking or mobile banking is more of a priority for an increasingly busy business owner. One in three business owners surveyed use mobile banking to keep an eye on finances. High-growth companies are 20 percent more likely to use a mobile banking application to manage their business finances.

Another 34 percent of companies utilize real-time account alerts to ensure their cash is working properly. Email, text or push notifications can alert busy owners to unusual cash flows, balance levels or activities outside the norm — which help to prevent overdrafts and shortfalls while keeping you focused on other important business functions.

#4 Use extra cash flow to increase savings and reserves

From slow seasonal sales to late-paying customers and unexpected expenses, business events can often disrupt small business cash flow plans. Businesses whose top concern is controlling cash list setting aside savings and building a reserve account for expected and unexpected cash flow needs as one of their top strategies.

There are many ways to provide short term relief from the ups and downs of cash flow. Fifty-two percent of business owners use business credit cards to cover cash management shortfalls. While few relish the exercise, forty-seven percent of owners dip into personal finances to provide needed funding. Turning to business savings rather than borrowing to cover cash shortfalls is favored by fast-growing businesses who list “keeping cash in a reserve account to cover shortfalls” as the second most important action to manage finances. Beyond covering cash flow fluctuations, reserved cash can allow you to act quickly on new business opportunities, reduce business risk and offer a more attractive profile to potential investors or lenders.

Despite the challenges of disciplined saving, SunTrust found that 47 percent of owners keep cash on reserve to manage seasonal fluctuations, unforeseen shortfalls or even unexpected opportunities that present themselves. Funding a reserve account requires clear financial goals along with the mechanisms to identify extra funds, sweep them into a separate reserve account for safe-keeping and only use them when necessary.

Are you ready to manage your cash flow more efficiently?

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- Visit suntrust.com/bizbestpractices

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