The 5 Biggest Cash-Flow Mistakes Made By Business Owners

It’s no secret that cash flow is one of the most important aspects of running a successful business – and, yet, that’s where many small-business owners fall short. In fact, a recent study by U.S. Bank revealed that 82% of startups and small/medium-sized businesses fail as a result of poor cash-flow management.

No matter how solid your business model is, how much profit your company generates or how many investors are knocking on your door, the key lesson here is simple: your business will not survive if you aren’t properly managing its cash flow.

To be better prepared, here are five of the biggest cash-flow mistakes that every business owner should avoid:

1. Overestimating Your Future Sales Volume

As business owners, we all have high hopes that our businesses will thrive. This propensity for optimism – even in the face of countless obstacles – is a key trait of successful entrepreneurs. However, it can also pose a major risk to your cash flow.

Overestimating how much capital your small business will bring in can skew your budgeting and harm your cash flow. That’s why it’s important to develop a realistic sales forecasting model based on historical evidence and real numbers. This will provide you with actual past revenue data from your own business, as well as other companies in your industry, that can be used as a basis for tracking trends and projecting future sales.

2. Impulse Spending During Your Startup Phase

We’ve all heard the expression, “It takes money to make money.” And although this is true in many ways, it can be a dangerous game to play, leading small-business owners to overspend on impulse purchases – particularly during the early stages of operation.

It’s important to keep your eye on the bottom line by taking the time to consider the cost-benefit of each expense and assess the value it will bring back to your small business. After all, every dollar you spend is a dollar that is ultimately taken away from your profit margin.

You can then tie those calculations into your budget and revenue forecast to determine when you’re projected to hit your break-even point on the purchases, as well as how soon they will begin contributing to overall profits.

3. Being Too Passive About Overdue Invoices

One of the quickest ways that small-business owners – particularly those in the B2B space – can destroy their cash flow is by not being proactive enough when it comes to collecting payment for unpaid invoices from clients.

Without solid late-payment penalties and collections policies in place, small businesses are often taken advantage of by clients. To avoid this issue, it’s important to set – and enforce – clear policies for how overdue invoices will be handled, such as a late-payment penalty after five days and a work stoppage after 30 days past due. In addition, create an internal timeline for when initial invoices will be mailed out, payment reminders should be sent and collections calls will be made – and stick to it.

4. Not Tracking Your Cash-Flow Budget

Without routinely monitoring day-to-day cash flow, you may end up landing your small business in hot water financially. A cash-flow budget is a great planning tool that can help small-business owners track their inflow of revenue and outflow of expenses during a set period of time – usually on a monthly basis.

This approach allows small-business owners to identify cyclical trends and anticipate when their cash flow will peak and trough, making it easier to plan ahead for difficult periods when money will be tight. It also provides an opportunity to capitalize on any periods of high cash inflow.

5. Lacking a Cash Cushion

No matter how many safeguards you have in place, hiccups in cash flow are an inevitable part of running a business. If your company is working from a zero-dollar account balance, one slow month can spell instant disaster. However, this won't be nearly as big of a hit if your small business has a cushion of savings to fall back on.

As a general rule of thumb, small-business owners should maintain an account balance of at least three months of operating expenses. That way, if sudden cash-flow issues do pop up, you will have cash reserves on hand to protect your business until it's back on track.