4 Ways To Prepare Your Cash Flow for Changing Business Cycles

Having a healthy cash flow is a part of having a healthy business. Here are a few ways you can stay on top of your cash flow to ensure smooth transitions between business cycles.

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By Mark Henricks

Healthy cash flow is always critical, but it assumes even more importance when the economy is in flux.

After a decade of steady economic expansion, the possibility of a downturn should be considered in your business' cash-flow plans, says James Cassel, co-founder and CEO of Miami investment banking firm Cassel Salpeter.

Questions about how long the expansion will continue, uncertainty as national elections loom and the effects of tariff wars are all affecting business owners' moods, says Sonya Smith-Valentine, owner of financial consulting and training firm Financially Fierce in National Harbor, Maryland.

“I've noticed there's a lot of unease, in general," Smith-Valentine says. “Everybody's wondering what's going to happen after the election. It's making people hesitant."

Not only should business owners start planning for a shift in the economic winds, they should start now, says Andy Cagnetta, CEO of Transworld Business Advisors, a Fort Lauderdale-based business broker.

“The speed at which things happen these days is much faster than it used to be," he explains.

With that in mind, here are four ways to manage your business cash flow through the ups and downs.

1. Watch your customers.

From her experience riding out the last recession as head of a small law firm, Smith-Valentine suggests business owners worried about future business cycle shifts focus closely on their customers. As the 2008-2009 downturn built, she had to switch from mainly representing consumers suing credit bureaus to defending individuals against lawsuits filed by lenders.

“Luckily I saw the change coming," she says.

By being sensitive to trends in her practice, she was able to switch emphasis to the part that was growing. And that let her maintain and even grow cash flow despite the downturn.

2. Reduce your business expenses.

In addition to seeking new markets, Smith-Valentine worked to cut costs. She used an automated phone system instead of a human receptionist, reduced office supply orders and combed her spending for inefficiencies.

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—James Cassel, co-founder and CEO, Cassel Salpeter

“I was paying for access to two different programs when I only needed one," she says. “I got rid of one of them."

3. Refine credit terms.

Customer credit is another area cash flow managers examine to prepare for economic uncertainty.

Cassel stresses the importance of watching customers' performance carefully, and taking action swiftly if a fast payer starts paying late. However, he says that rather than cutting off customers and driving them to rivals, it may be wiser to help customers through a rough patch so they remain with you.

4. Keep cash and credit available.

It's also important to maintain healthy cash reserves and, while business is good, consider obtaining a business credit card or expanding an existing credit line. It's obviously easier to get credit approval when cash flow is strong than when a business is struggling to pay its bills.

Cagnetta's firm maintains its line of credit even when cash flow and reserves are ample.

“We don't have any money against it right now," Cagnetta says. “But we keep it for a couple of reasons: To be strategic if we decide to buy something and in case of a rainy day so we have reserves."

Other Cash-Flow Concerns

As Cagnetta noted, opportunity can arise in any economic environment. If a competitor struggles, it may offer the chance to acquire a rival at a bargain price. When competitors go under, surviving firms may be able to hire sought-after talent without buying the whole company, Cassel adds.

And in addition to scrutinizing receivables for slow payers, pre-recession may be an ideal time to encourage faster turnaround on invoices from healthy customers. Cassel suggests companies consider offering a discount for paying in 30 days instead of 60 days or otherwise accelerating payment.

“You have to be careful," he says. “Some customers may get the discount and then slip back and still want the discount. So you have to stay on top of collections."

Being careful is a central theme of how to manage cash flow during uncertain economic times. Growing too fast or taking on too much debt before a recession can hamstring a business. But being overly conservative and reining in growth when competitors are exploiting a continuing expansion can push a business to the back of the pack.

“It's a balancing act," Cassel says. “But you cannot bury your head in the sand like nothing's going on."

All told, information may be the most valuable commodity when preparing for a shift in economic fortunes. Even more than cash or credit, what distinguishes winners from also-rans when business cycles evolve could be having the data that will identify trends and suggest the optimal course of action, Cassel says.

“Having good timely data is crucial," Cassel stresses. “One mistake we see is businesses letting that slip so they're getting information 60 to 90 days old. That's too late. You need to be managing your business daily, weekly and monthly, not quarterly."

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