

# How to Cut Costs and Manage Cash Flow

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Ruth Ellen Elinski, Program Director  
Small Business Development Center  
Yavapai College

# Agenda



## **This Session:**

- What is Cash Flow and Why it Matters
- The Time Value of Money
- Strategies to Maximize Income and Minimize Expenses
- Tools for making Cash Flow projections
- Dealing with Inflation
- Questions
- How to Register with SBDC



# What is Cash Flow, Really?

Cash flow **IS** money transferring in and out of your business.

Cash flow **IS NOT** your bank balance.

Strategy for good cash flow = maximize your income and reduce and manage your costs.

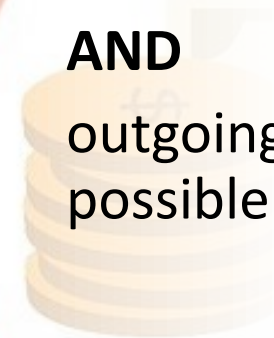
# Time Value of Money



Strive to have incoming cash flows as large as possible taking place as soon as possible

**AND**

outgoing cash flows as little as possible and as late as possible.



# Why Cash Flow Matters



Cash Flow MATTERS  
in every business

61%

of small businesses regularly struggle  
with cash flow

82%

of business failures are due to poor cash  
flow management skills / poor  
understanding of cash flow

69%

of small business owners have been  
kept up at night by concerns about  
cash flow

43%

of small business owners have been at risk  
of not paying employees by payday

1 – Wakefield Research survey – Jan 2019  
2 – Preferred CFO Study – March 2017

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COLLEGE

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COMMERCE AUTHORITY





Revenue

# Maximize Income

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- Offer discounts/sales to reduce older and slow-moving inventory
- Sell gift cards and certificates
- Expand or pivot business – offer new products and/or services
- Review product/pricing
- Work with customers to schedule past due accounts receivable payments

# Minimize Expenses - Reduce & Manage Costs

- Prioritize Spending

Necessary (legal obligations)	Discretionary
Lease	Marketing *
Payroll	Travel and Entertainment
Insurance	Subscriptions
Taxes	Some Services
Utilities	
Loan Payments	
Vendor Payments	



# Minimize Expenses - Reduce & Manage Costs

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- Eliminate unnecessary costs
- Account for new or additional costs
- Move credit card balances to 0% rate cards
- Pay down highest interest rate credit first







# Other Ways to Manage Cash Flow

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- Sell assets that are no longer needed
- Lease vs. buy
- Manage inventory – utilize just in time strategies, drop shipments from vendors
- Speak with vendors and lenders about payment deferrals
- Maximize payment terms - Pay with Automatic Funds Transfer (AFT) on a bill's due date
- Secure short-term credit, if needed

# Prepare Cash Flow Projections

- Keep your books up to date
- Project future cash flows at least 6 months out
- Plan for cash shortfalls
  - Short term financing – credit cards or a line of credit

Projected Cash Flow	FY2020	FY2021	FY2022
<b>Net Cash from Operations</b>	<b>\$263,868</b>	<b>\$396,376</b>	<b>\$436,593</b>
Net Profit	\$258,700	\$371,734	\$410,612
Depreciation and Amortization	\$25,830	\$25,830	\$25,830
Change in Accounts Receivable	(\$5,022)	(\$435)	(\$305)
Change in Inventory	(\$23,145)	(\$1,403)	\$0
Change in Accounts Payable	\$0	\$0	\$0
Change in Income Tax Payable	\$0	\$0	\$0
Change in Sales Tax Payable	\$7,506	\$649	\$456
<b>Net Cash from Investing</b>	<b>(\$617,900)</b>		
Assets Purchased or Sold	(\$617,900)		
<b>Net Cash from Financing</b>	<b>\$700,154</b>	<b>(\$35,146)</b>	<b>(\$38,063)</b>
Investments Received	\$250,000		
Change in Short-Term Debt	\$35,146	\$2,917	\$3,159
Change in Long-Term Debt	\$415,009	(\$38,063)	(\$41,222)
Cash at Beginning of Period	\$0	\$346,123	\$707,353
Net Change in Cash	\$346,123	\$361,230	\$398,531
<b>Cash at End of Period</b>	<b>\$346,123</b>	<b>\$707,353</b>	<b>\$1,105,883</b>

Expenses Excluding direct costs, personnel, etc.	FY2020	FY2021	FY2022
Liability Insurance	\$250	\$250	\$250
Insurance	\$2,760	\$2,760	\$2,760
Electricity	\$7,200	\$7,200	\$7,200
Water	\$3,600	\$3,600	\$3,600
Gas	\$1,800	\$1,800	\$1,800
Telephone	\$1,200	\$1,200	\$1,200
Wifi	\$1,200	\$1,200	\$1,200
POS equipment (Square)	\$22,886	\$27,324	\$28,848
Accounting/Book Keeping	\$960	\$960	\$960
Marketing, Memberships	\$1,200	\$1,200	\$1,200
Cleaning Supplies	\$480	\$480	\$480

# Dealing with Inflation

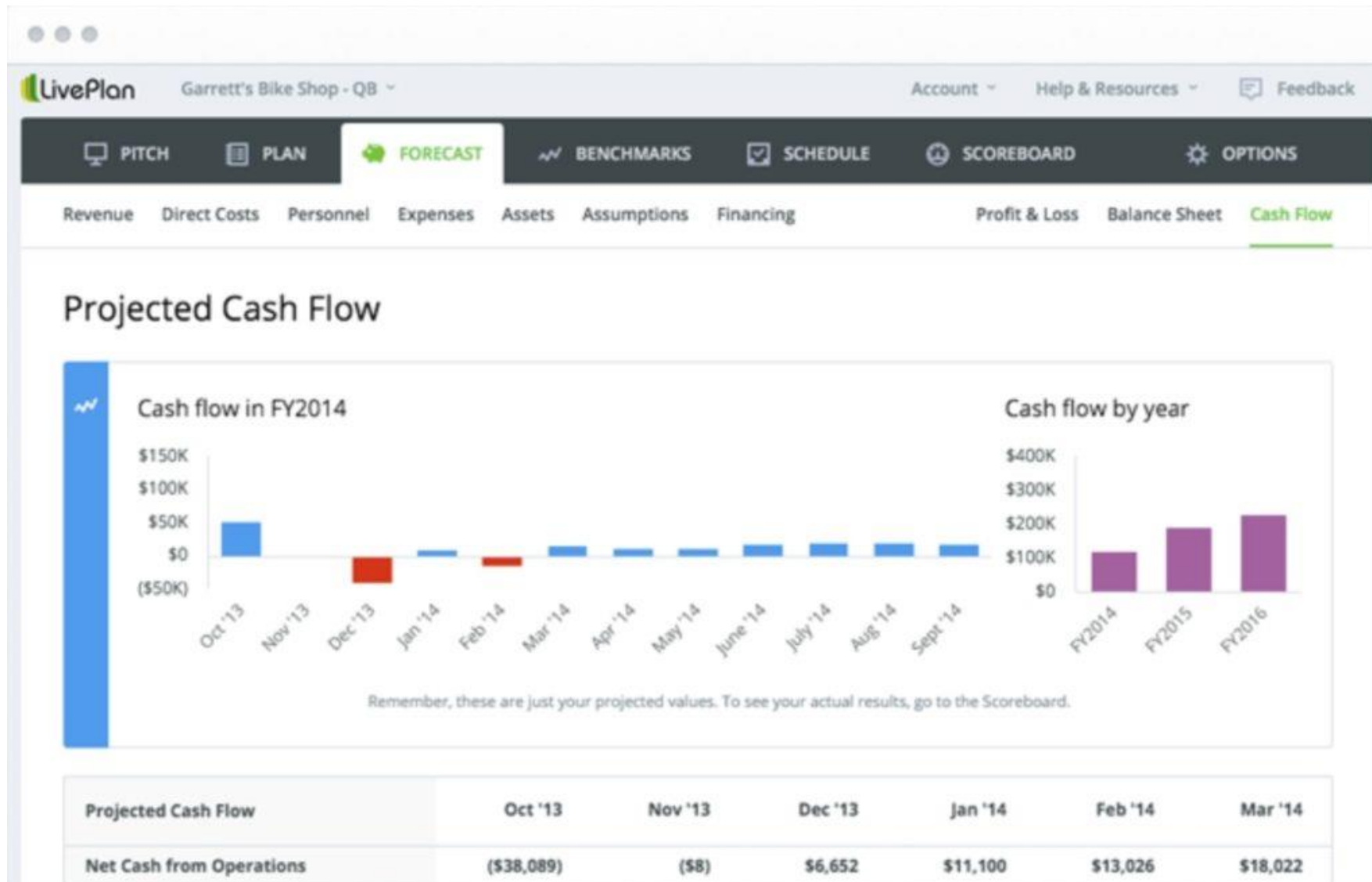
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You Can Reduce Costs or Raise Prices

- Always strive to be efficient
- Pricing Power – add value through higher quality and telling your story
- Increase marketing and emphasize the value your customer receives



# Live Plan Forecasting Tool





# Recap

- Maximize income
- Reduce and manage costs
- Secure credit, if needed
- Identify ways to optimize cash flow, add value, and tell your story
- Prepare cash flow projections for a minimum of 6 months
- Contact your local SBDC office for tools and guidance on cash flow management and forecasting



# SBDC SERVICES



Yavapai SBDC is part of America's SBDC Arizona Network.



**Consulting**  
(No Fee)



**Training**



**Resources**

## **Mission:**

To help Arizona small business owners launch, grow, sustain, and exit their enterprises.

- No-cost, confidential consulting services
- Funded in part by the Small Business Administration (SBA)
- Support businesses and entrepreneurs with expert trainings and workshops
- Unique partnership with the Arizona Commerce Authority
- Leverage 10 other centers across Arizona

[www.YC.edu/SBDC.com](http://www.YC.edu/SBDC.com)

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Funded in part through a Cooperative Agreement  
with the U.S. Small Business Administration

# Questions?



Ruth Ellen Elinski  
Center Director | Certified Business Analyst  
(928) 649-4580  
ruthellen.elinski@yc.edu

Marie Platowski-Beals  
Certified Business Analyst  
(928) 771-4819  
marie.platowski-beals@yc.edu

Hilarie Strong  
Business Analyst  
928.776.2120  
hilarie.strong@yc.edu

Fanny Zapata  
Program Assistant  
(928) 717-7232  
fanny.zapatasanchez@yc.edu



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