CASH FLOW: WHY PROFITABLE BUSINESSES STILL RUN OUT OF MONEY

Profit is what you earn. Cash is what you have. Here's how timing can sink a good business, and how to stay ahead of it.

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AT A GLANCE

- **Cash flow** is the timing of money moving in and out of your business. You can earn a profit and still run out of cash if you pay bills before customers pay you.
- Running out of cash is one of the most common reasons small businesses close.
- A simple **13-week or 12-month cash forecast**, deposits from customers, and a cash cushion protect you.

Why it matters

Rent, payroll and suppliers want to be paid on time, whether or not your customers have paid you yet. A single big order, a slow season or a late-paying customer can leave a profitable business unable to pay its bills. Watching cash, not just profit, keeps you in control.

How it works

Cash moves for reasons your profit and loss statement doesn't always show:

- **Customers pay late.** You earned the sale, but the money arrives 30, 60 or 90 days later.
- **You pay costs upfront.** Materials, staff and inventory are paid before you sell.
- **Loan payments.** Only the interest shows on your P&L, but the full payment leaves your bank.
- **Big purchases.** Equipment leaves your bank all at once, but its cost is spread over years on paper.
- **Seasons.** Sales may drop in some months while costs stay the same.

Example: Kofi's big catering order

EXAMPLE

Kofi runs a catering business with **$4,000** in the bank. In a normal month, he takes in **$5,000** and spends **$4,500**. In March, a company orders a **$12,000** event. Food and extra staff cost **$7,000**, paid in March. The client pays **45 days after the event**, in May. The order earns him $5,000 in profit. Here's what happens to his cash:

	March	April	May
Cash at start	$4,000	−$2,500	−$2,000
Regular sales in	$5,000	$5,000	$5,000
Regular costs out	−$4,500	−$4,500	−$4,500
Big order: costs	−$7,000		
Big order: client pays			$12,000
Cash at end	**−$2,500**	**−$2,000**	**$10,500**

A profitable order leaves Kofi **$2,500 short for two months**. Now suppose he asks for a **50% deposit** when the client books:

	March	April	May
Cash at start	$4,000	$3,500	$4,000
Regular sales in, minus regular costs	$500	$500	$500
Big order: deposit in, costs out	$6,000 − $7,000		
Big order: balance paid			$6,000
Cash at end	**$3,500**	**$4,000**	**$10,500**

KEY POINT

Same order, same profit, same money by May. With a deposit, Kofi's cash never drops below zero.

Ways to improve cash flow

1. **Ask for deposits** on large or custom orders.
2. **Invoice right away** and set clear payment terms, such as "due in 15 days."
3. **Follow up on late payments** every week.
4. **Ask suppliers for longer terms**, such as 30 days to pay.
5. **Keep a cushion** of at least one to three months of fixed costs.
6. **Forecast.** List expected cash in and out for the next 13 weeks and update it weekly. See **M-16 12-Month Cash Flow Forecast**.

7. **Set up a line of credit before you need it.** See **R-07 Equipment Financing and Lines of Credit**.

Common mistakes

- **Treating profit as cash.** Check your bank balance and forecast, not just the P&L.
- **Taking a huge order without a plan.** Big orders can drain cash before they pay off.
- **Buying inventory or equipment with operating cash.** Consider financing big purchases.
- **Ignoring seasons.** Save in busy months for slow ones.

Your checklist

- ☐ List what customers owe you and when it's due
- ☐ Set deposit rules for large orders
- ☐ Build a 13-week cash forecast
- ☐ Set a cash cushion goal
- ☐ Ask your top supplier about payment terms

Key words, explained

Word	What it means
Cash flow	Money moving in and out over time.
Payment terms	How long a customer has to pay, such as "net 30."
Deposit	Part of the price paid upfront.
Runway	How many months your cash will last at current spending.
Working capital	Cash available to run the business day to day.

Where to go next

- **M-16 12-Month Cash Flow Forecast**
- **M-10 Building a Simple Budget**
- **R-07 Equipment Financing and Lines of Credit**

IMPORTANT
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