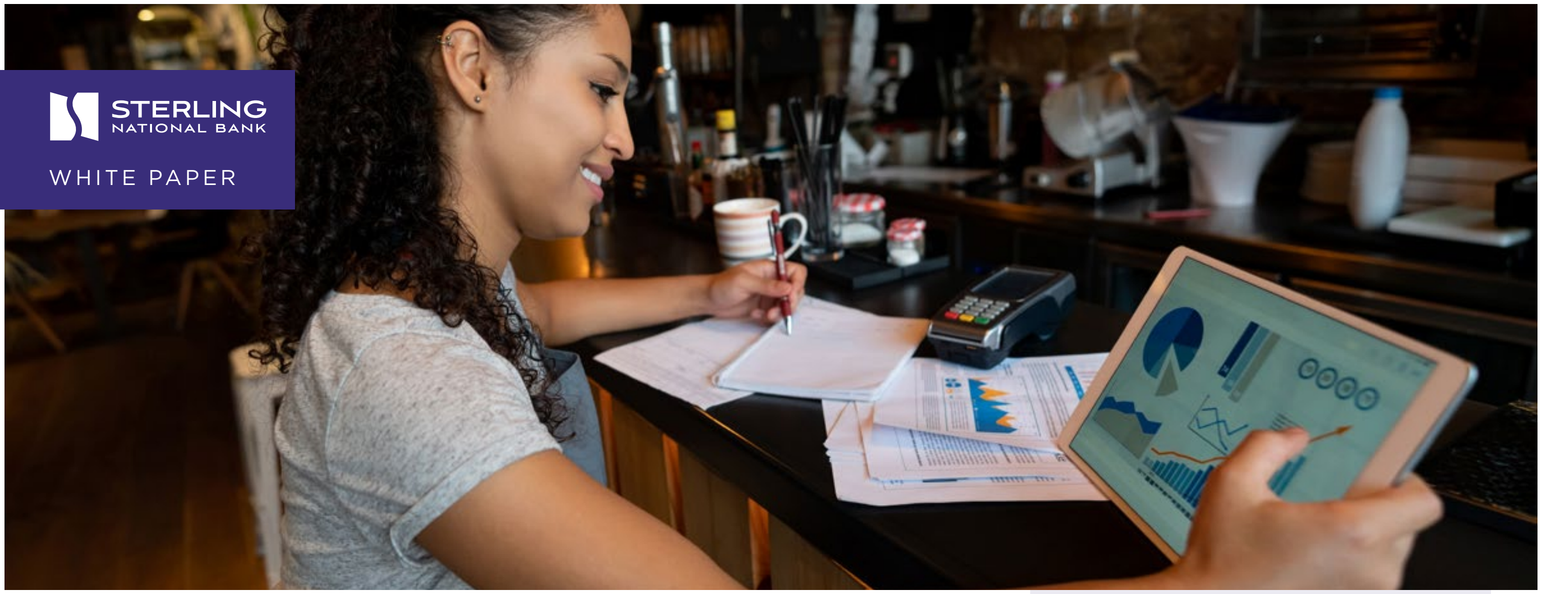
STERLING NATIONAL BANK

WHITE PAPER



Budgeting Your Way to Improved Cash Flow

Cash flow is the lifeblood for most successful companies, but economic uncertainty can cause a thriving small business to suffer. Without a sufficient, reliable stream of revenue to pay expenses, a business can quickly go into the red, making it difficult to recover. While you can't control the financial markets or consumer habits, you can take steps to increase income and reduce operational expenses.

Reprioritize Sources of Business Income

Whether you use a business accounting software program to calculate profit and loss or a simple spreadsheet for cash flow management, start by determining how much income you should expect each month from your core products and services. Promote products with a strong track record of income generation and shelve your weaker performers. You may also need to delay the rollout of new products and services until a later date. Further, you should continually review similar competitor solutions and pricing as there may be an opportunity to reprice your core offerings.

Revise Payment Terms

Next, review your accounts receivable system to see where you can safely delay outgoing expenditures and expedite incoming payments. Help minimize financial shortfalls by contacting vendors to negotiate invoice payment terms (e.g., Net 60 instead of Net 30). Customer invoices may also provide an opportunity to improve cash flow. For example, you might consider assigning a late fee to past due invoices.

Be prepared to make these or other necessary changes to increase your cash flow based on the current financial climate.

Categorize Expenses

Identifying your fixed and variable expenses is the first step to reducing them. List expenses by category so you can see how much you spend each month or quarter.

- Fixed costs, such as rent and payroll, are items that remain the same each month
- Variable expenses, such as marketing or materials, may change frequently and require you to use forecasted numbers.

It might be a good idea to include a buffer of 10% for forecasted variable expenses to account for changes, such as increased vendor pricing.

Know That Fixed Expenses Can Change

Every month look for ways you can cut expenses without sacrificing quality. Since each business is different, a suggested list of expense reduction items may be less useful than these simple instructions.

- List your fixed and variable business expenses
- Brainstorm creative ways that the company can achieve a similar result at a lower cost. For example, explore the use of third-party providers, shared risk agreements and insourcing critical services as ways to lower expenses or derisk the business from future financial exposure.
- Test drive the expense reduction for 60 days and be willing to reinstate it at-cost if the modification negatively affects product or service delivery

Even though fixed expenses typically remain stable month to month, they can still change over time. For example, office space is a fixed expense. It can, however, increase if your landlord raises the rent. It can also decrease if you transition to a remote work environment.

Include a Contingency Fund Line Item

Necessary one-time costs always seem to appear when profits are down. Don't let unexpected expenses further harm your business. Instead, plan for them. Even during tough economic times, continue to set aside a percentage of your profits each month to fund these contingencies. This can keep you afloat and help you avoid going into debt to cover the expense.

Schedule a Mid-Year and Annual Review

In addition to monitoring your budget every month, plan a six-month review. Use this time to analyze the prior six months and forecast the next six months within the context of current economic conditions. Further revise your budget to ensure you meet your updated financial targets before year-end.

Regardless of the financial climate, don't underestimate the power of annual financial reviews that compare multi-year performance. Each passing year leaves you with valuable information unique to your business. For example, an analysis of your budget for the last two years can help you confidently predict slow months for the coming year.

Successful business budgeting during turbulent times is more than a one-time examination of income and expenses at the beginning of a financial crisis. Maintaining a steady stream of cash flow requires ongoing review and forecasting along with a willingness to modify strategic goals and operations.