

CASH MANAGEMENT: BEING PREPARED

May 2020

Staying healthy is the top priority during this pandemic, but a close second should be managing your cash. Cash management is a critical responsibility for practice owners and managers, especially in times like these! It's hard enough juggling the regular daily cash ins and outs without hammering a surprise pandemic into the mix. Now more than ever, it's critical to have a "cash cushion" for your practice! Saving money for the future is not only a great idea for your personal financial well-being, it's also an intelligent business strategy.

Why save your money?

Everyone needs some extra cash for those "just-in-case" situations. Some situations have a higher likelihood of happening, such as an accident or illness that puts you out of work, while other situations we never dream would happen, such as a worldwide pandemic and mandatory shutdowns. No matter what situation arises, you can be more resilient with some money in your pocket!

Having a savings account can also improve your credit ratings. Practices that have savings accounts have a better chance of getting approved for a loan by a financial institution. Having some money set aside demonstrates to a lender that you are responsible with your practice's money and that you have the means to pay loans back.

Quarterly estimated tax payments roll around... yes, every quarter! Utilizing a separate savings account is a great way to be prepared for those time-sensitive payments without crippling your regular monthly operating cash flow. As part of our government's relief efforts, the 2020 deadlines have been extended, so take advantage of that if you can and sock more money away before the extension date.

Even though interest rates are low, keeping your money secured in a savings account still earns you extra money that you would not have if you left it in your checking account. Shop around to find the best interest rates.

And besides, how could saving money ever be a bad thing or hurt your practice? Having liquid cash responsibly put away is something that will always be helpful on any given day!

Savings options

There are several options available when considering the best tools to use to save your money. The most common ones are regular business savings accounts and high-yield savings account. Using a savings account helps you find that balance of making your extra cash work for you, while keeping it readily accessible in the event that you need it to cover immediate expenses.

Several banks are offering incentives right now to open high-yield savings accounts. Some are waving set up fees and early withdrawal penalties. A few online banks are offering bonuses for new customers who open a savings account. Depending on the bank, bonuses can range anywhere from \$100 to \$400, or more. You won't get rich solely by applying for a new account, but if money is tight right now, an extra \$200 can help out. Online banks usually have more attractive rates than traditional brick and mortar banks because they don't have all the expenses and overhead that a regular bank has. Visit with your financial planner for more guidance. If you don't have a financial planner, make an appointment with your banker or insurance agent to discuss some of your options.

Ways to help save

Create a budget! If you don't know the ins and outs of your practice's cash flow, how can you manage it? Study the history of your financials and then create a budget and strategize for extra cash. Then "sweep" that extra cash into a savings account.

Stop impulse buying! Most practices have pulled the reins on this due to the uncertainty created by COVID-19, but as things start to open back up and business starts to resemble something close to "normal", refer to your budget so that you only purchase what you have plans for. This will help prevent ill-advised spending; when you choose to buy something, there should always be a sound reason!

Negotiate fixed costs when possible. Tightly control your accounts payable by utilizing your full payment terms with vendors. Similarly, focus on collecting any outstanding accounts receivable. Manage your cash so that you collect money from your clients before you have to pay your vendors. Manage inventory closely and purchase only what you are confident that you can use or sell quickly. Now's not the time to have dollars sitting on the shelf waiting to expire. Those dollars can be sitting in a savings account earning interest.

Finally, and this is a tough one: **do not** take out more cash for yourself than you need. Manage your personal lifestyle to fit what your practice can afford to pay you in veterinary compensation and profits. The last thing you want to do is cripple your practice's operating cash to the point where it can no longer support you, your employees, your clients, or patients. **More practices fail due to lack of cash than they do from lack of profits!**

Nearly every business goes through an up-and-down cash cycle. These fluctuations can be caused by a range of factors that include everything from seasonal trends to the overall health of the economy, such as we are experiencing now. During periods when you have a positive cash flow, put away money to cover expenses during a down cycle. No matter what your business goals are, having a solid financial cushion in place can help increase the long-term stability of your practice!