Do You Make These 7 Deadly Cash Flow Mistakes in Your Coaching Practice?

Managing cash flow is every small business owner's most important function. Avoid these seven deadly mistakes to make sure you aren't creating cash flow problems in your coaching practice.

1. **Using the "Fly By The Seat of Your Pants" Accounting Method.**

   When tax time rolls around do you find yourself pawing through piles of paper on your desk looking for credit card receipts from your business trip? Or are you upside down digging under the seat of your car trying to figure out where all your gas receipts are? Are you wondering if that coffee stained piece of paper is an invoice from a supplier? Do you have a vague feeling that someone, somewhere owes you money but, you just can't remember who it is? If so, you're probably guilty of operating with the "Fly By the Seat of Your Pants" accounting method.

   Using this accounting method has a tremendous impact on your business's cash flow. Unless you have a system to track your business finances, you'll always be operating in the dark and in danger of imitating George of the Jungle as he slams into a tree.

2. **Not Knowing What the Numbers Are All About.**

   Once you have a real honest to goodness useful accounting system, that's where the real fun starts. You've got a bunch of numbers but what in the world do you do with them?

   Understanding what the numbers mean is crucial to your cash flow. Are sales trending up or down? Are expenses rising faster than sales? Is one coaching package more profitable or better selling than another? How many clients do you need to meet expenses each month? Can you take a paycheck this month? The answers all lie in the numbers.

3. **Mismanaging Credit: I Owe You, You Owe Me.**

   There are two ways to mismanage credit in small business:

   1. Granting credit without wise credit policies
   2. Using credit with no plan of how to pay the bill.

   Both have a huge impact on your cash flow and are often closely related. Here's a scenario to demonstrate that point. You have two opportunities: you can work on a big project for a corporate client or you can take on several small clients. You might think the big client is the way to go but how long will it take you to get paid? Often, large companies take their time paying—sometimes 60 or 90 days, sometimes longer. You may find that you've tied up a tremendous amount of your

time with no cash flow to pay your bills. The smaller clients could provide you with more immediate cash flow without tying up all your time.

And it's easy when times get tough to pull out your credit card to cover your current expenses. But doing this with no plan of how you'll pay the bill gets many small business owners in hot water fast.

4. **Ignoring the relationship between Receivables and Payables.**

   Do your Receivables and Payables "play nice" with each other? In a perfect world your receivables (what customers owe you) would be paid just in time for you to pay your payables (what you owe your vendors). But, if you're a small business owner you know Rule #1 is "Stuff Happens". The customer you thought would pay his bill this week, doesn't. So the bills you thought you could pay this week, don't get paid.

   Are your Payables in balance with you Receivables? If what you owe to others is far more than what is owed to you, then, Houston, you have a problem.

   And it's not just the balance that's important, it's the quality as well. If your receivables are as old as your Aunt Tilly, chances are good you'll never see the cash.

5. **Focusing on profit instead of cash flow.**

   Ahh, Profit. The ultimate goal of every business. Or is it? Did you know that many businesses that fail are operating at a profit? How can that be? For the small business, cash flow is the ultimate goal. No cash flow. No business. Period.

   What's the difference? Mostly the difference is in the decision making process. "If I take on this big job, it will earn me a huge profit, but if I take on five smaller jobs, I'll have cash to pay my bills." Yes, you want to be profitable but every decision has to be measured against the effect it will have on cash flow.

6. **Forgetting your debt to society.**

   Some bills are easy to forget. Bills like insurance, payroll taxes, estimated taxes. They sort of sit out there, almost off the radar screen. They don't have to be paid right away. It's easy to forget them until BAM! they're due and they're due right now. And you better have the money to pay them or you're in hot water. Then, cash flow problems result as you rob Peter to pay Paul. It can take months or even years to recover.

7. **Spending your company's future on a speed boat.**

Haven't you always wanted a speed boat? Or a fancy car? Or an all expense paid trip to the Bahamas? It might be tempting to try to pass your personal purchases off as tax deductible business expenses. But, it's a bad idea for two reasons.

The folks who work at the IRS are over-worked but they're not stupid. The last thing you need is an audit. An audit that could reveal your transgressions and could result in an unexpected tax bill plus penalties and interest. Again, huge cash flow headache!

Here's the other reason it's a bad idea. Are you spending your company's future on frivolous or unnecessary expenses? Small businesses operate close to the edge. Unless you have a reserve to see you through the tough times, you're always in danger of being on the wrong side of that edge. You've got to take care of the goose that lays the golden eggs first. Then, you can pay yourself a properly taxed bonus and buy all the toys you want.

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