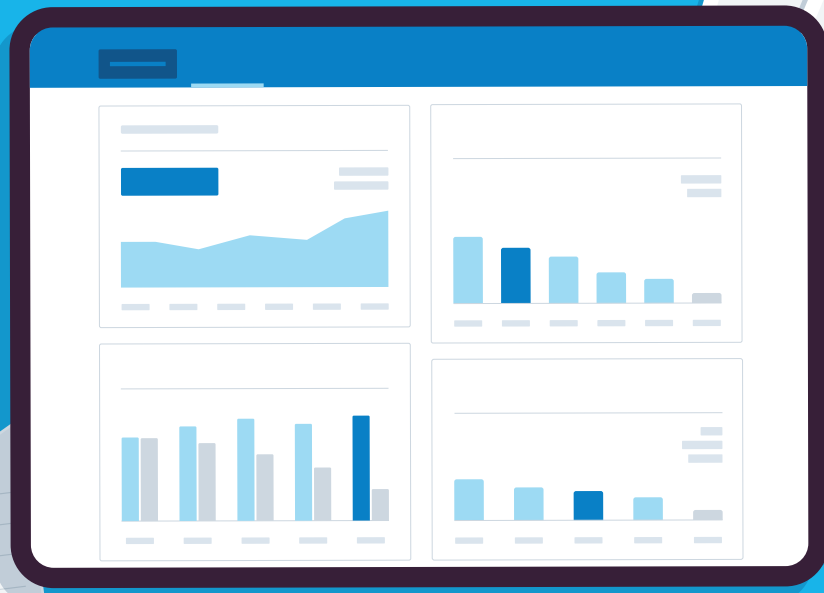




# Money matters

The impact of economic conditions  
on the cash flow of US small businesses



# Introduction

Small businesses are stalwarts of innovation and growth in the American economy, yet the present macroeconomic climate presents a conundrum for their owners. While a glimpse at the nation's economic data, including its 50-year low unemployment rate, might suggest resilience, underlying currents reveal challenges for small businesses, particularly when it comes to cash flow management.

The backdrop in the US is complex: inflation remains a challenge despite its moderation, and the question of an impending recession continues to loom. Actions taken by the Federal Reserve Bank, including the swift raising of rates reminiscent of the 1980s, are double-edge swords - they're both attempts to curb inflation and a threat to day-to-day cash flow stability and long-term growth.

Amidst this ambiguity, it's troubling that almost half of the small businesses we surveyed have felt a significant impact from inflation on their cash flow over the past six months. The same number of small businesses have experienced significant or at least some cash flow issues over the past 12 months.

These cash flow constraints have tangible consequences: a staggering 45% of small business owners have had to sacrifice their own paychecks and 43% have lost potential business opportunities. More than just numbers, these figures represent people, families and dreams. The emotional and physical toll - stress, anxiety and sleepless nights - paints a vivid picture of the challenges they face.

It's commendable then, that amid such challenges, small businesses are adapting and innovating. They're employing tools and pulling levers - from daily cash flow monitoring to leveraging technology for invoice management - to navigate

cash flow crunches. Their strategies to maintain financial health not only include price adjustments (the obvious), but strategic decisions on overhead costs and marketing spend.

Despite a rocky road ahead, 64% of small businesses feel at least reasonably upbeat and reassured about their financial wellbeing, an example of the spirit of entrepreneurship among small businesses. Even still, more can be done to give small business leaders the tools, resources and insights they need to make smarter financial decisions and ensure they can continue to grow and thrive now and in the future.

This is where Xero comes in. We recognise the central role of effective cash flow management to the success of a small business. Our suite of tools, including Xero Analytics, offer real time financial insights for small businesses and their advisors to better manage cash flow and measure financial performance. By giving small businesses trusted and insightful data to help them understand where they are now and where they might be in the future, we aim to be a trusted partner in their journey.

The current economic uncertainty underscores the vital importance of financial resilience for small businesses; as such, it's more crucial than ever for small businesses to have robust tools and strategies at their disposal. We hope that by sharing these insights on how small businesses are currently managing their cash flow, it helps them to spot the opportunities and mitigate the risks ahead of time.

After all, as the pulse of our economy and community, we all have a role to play in creating an environment that supports small businesses to boost their financial confidence and wellbeing.



Leigh O'Neill  
EGM Money, Xero

# Businesses are facing cash flow challenges

## Inflationary pressures continue to bite at small businesses

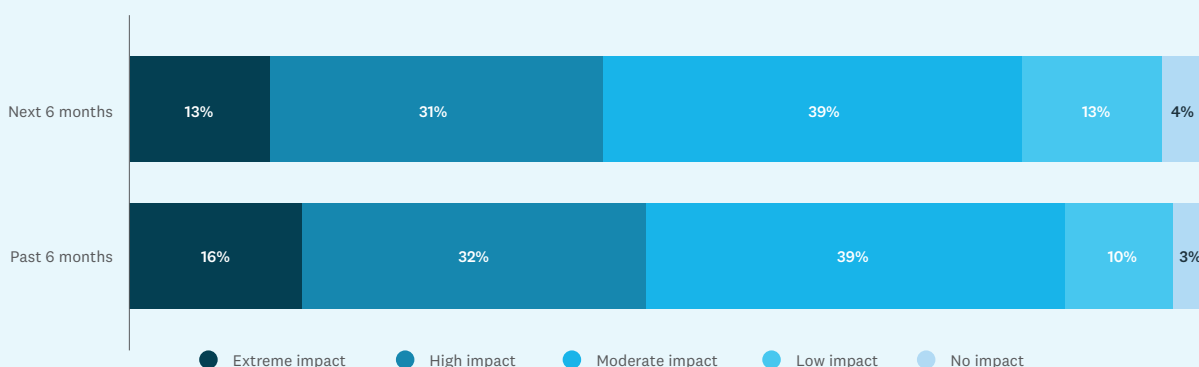
The survey showed that small businesses in the US are bearing the brunt of stubborn inflation, with 48% feeling the extreme or high impact of inflation on their cash flow over the past six months. The inflation pain is expected to continue, with 44% rating inflation to also have an extreme or high impact in the next 6 months.

Higher inflation and rising interest rates has flow on effects of higher costs for raw materials, labor and energy, while reducing consumer purchasing power. These tough economic conditions could be causing cash flow challenges for small businesses, with almost half (48%) experiencing at least some cash flow issues in the past 12 months. Of these, 12% have experienced significant cash flow issues.

When asked about the top short term financial challenges small businesses have faced in the last 12 months, limited or inconsistent cash flow (40%), clients / customers not paying bills on time (30%) and no cash reserved for unforeseen challenges (29%) were named as the top three challenges.

Cash flow challenges correlate to how small businesses feel about their financial wellbeing. Of the small businesses who faced limited or inconsistent cash flow in the past 12 months, over a third (35%) said they are only just coping and worried about the financial health of their business. Concerningly, 17% said they were really struggling and not sure if they could keep the business going.

### Q: How would you rate the impact of inflation on your cash flow management over the past 6 months?



**Tip:** Remove the need for awkward conversations and take the stress out of chasing payments with **Xero's automatic invoice reminders**. They're [easy to set up](#), you can choose how often you want reminders emailed, and they're completely [customisable](#) to your business. Adding [online payments](#) by credit card, debit card or ACH debits from Xero's invoices can also help speed up time to get paid.

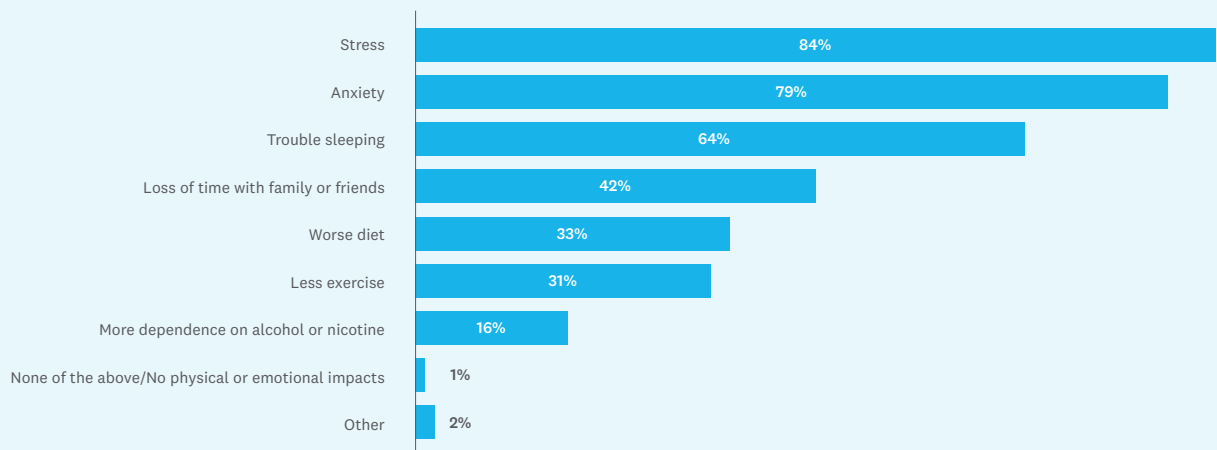
# The financial and personal impact of cash flow crunches

Cash flow is the very essence of business growth. As a result of cash flow issues over the last 12 months, small business owners surveyed said they were facing a number of consequences, including being unable to pay themselves (45%), stalled revenue (30%) and being unable to pay bills (22%). Cash flow issues also translated to missed business opportunities (43%) and a quarter (25%) of businesses coming close to collapse in the last 12 months.

Cash flow issues aren't merely a financial challenge; they are deeply personal.

“My decreased business income has led to me not being able to pay myself my full salary. The stress of financial uncertainty in my business has led to great personal stress within myself and my family.”

**Q: What are some of the emotional and physical impacts of cash flow management you have experienced over the past 12 months?**



Over half (58%) believe cash flow issues have negatively impacted their personal wellbeing over the past 12 months. Many small businesses have felt the emotional and physical impacts of cash flow management, the top three being stress (84%), anxiety (79%) and sleepless nights (64%).

The emotional toll of meeting financial obligations, paying bills and keeping the business going is also spilling into their personal lives, with 42% missing out on time with family and friends. Around a third have also experienced having a worse diet (33%) and doing less exercise (31%).

“I feel stressed every month just thinking about if I'm going to make enough to pay bills and pay inventory. There have been times where I can't fully pay myself and have to put all on the business.”

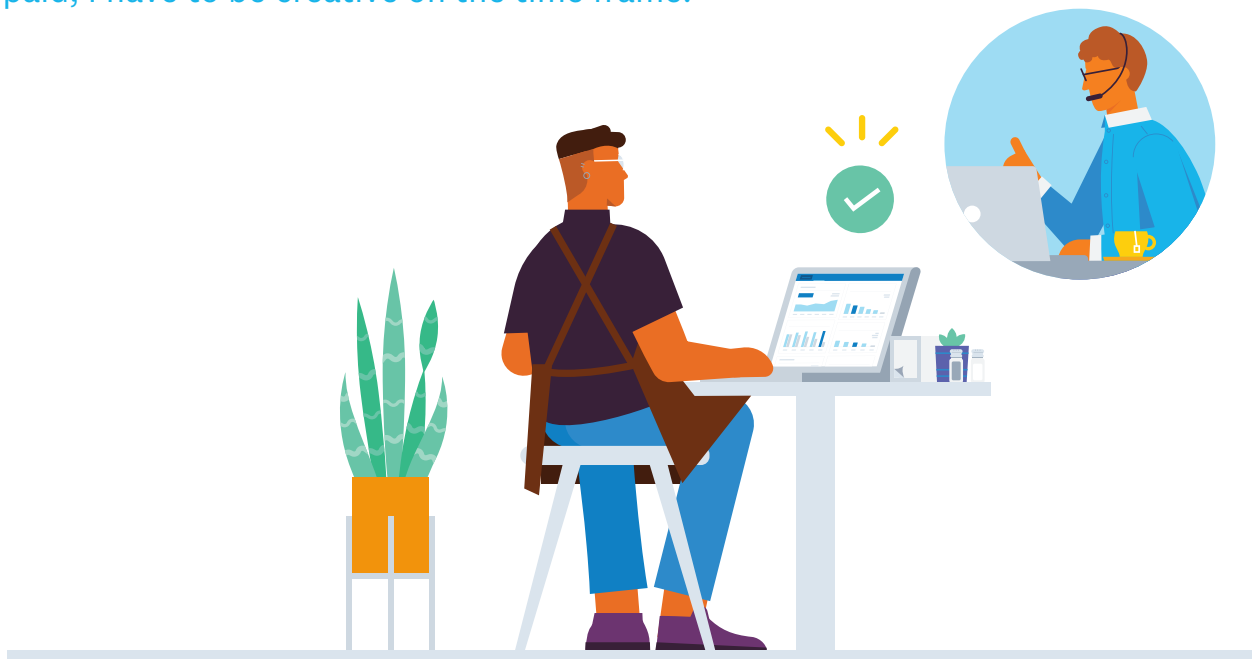
“I’ve had to increase my workload and decrease my income so that jobs can get done and my staff can get paid what they deserve. As a result I haven’t been able to spend quality time with my family and have to eat out regularly. Which increases my outgoing personal expenses therefore adding to the stress.”

Interestingly, despite the severe impacts of cash flow issues, 66% remain at least reasonably upbeat and reassured about their financial well being in the short term. This could be because many are pulling levers and using tools to try to improve their financial position and mitigate cash flow risk.

Small businesses are less certain about their long term financial resilience. Over half (52%) are worried about their personal financial future. Additionally, 45% are worried about the business’ financial future. Over a third (35%) disagree that they have capacity to absorb financial shock.

**Tip:** Health and wellbeing is important for small business owners, but sometimes it can be hard to get the support needed. For those wondering where to look, **Xero offers a range of free wellbeing education courses** in [Xero Central](#). There are also a variety of online business resources for workplace mental health and wellbeing, including government helplines.

“I have been stressed about when I can issue a paycheck for myself. This has affected me paying my bills, as well as my daughter’s school bills. While everything gets paid, I have to be creative on the time frame.”



# Measures taken by business owners to manage cash flow

## Increasing prices is the top action taken in current market conditions

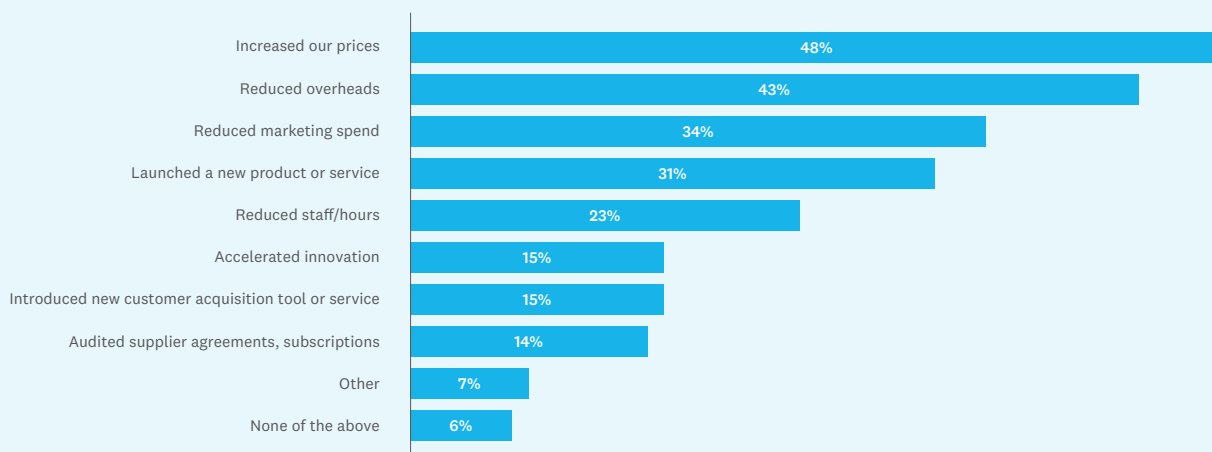
Given the challenges and pressures that diminishing cash flow has on small businesses, managing cash flow in the business is a very strong or strong priority for 85% of small business leaders surveyed..

Small business leaders are pulling many levers and employing different strategies to improve their cash flow. Increasing prices (48%), reducing overheads (43%) and reducing their marketing spend (34%) are the top three strategies to stimulate revenue or cut costs over the last 12 months.

Restructuring pricing is a popular strategy for small businesses. Over half (57%) have increased their prices in the past 12 months, and 29% plan to increase their prices over the next 12 months. Only 14% have no plans to increase prices. Almost a third (30%) of small business leaders who have increased their prices have increased them between 6-8%, while 28% have increased their prices as much as 9-12%.

Minimizing the impact of rising costs / supplies (58%), making a profit (53%) and maintaining / accelerating business growth (42%) were the top reasons for increasing prices or planning to increase prices.

### Q: What are the different ways you have stimulated revenue and/or cut costs during the last 12 months?



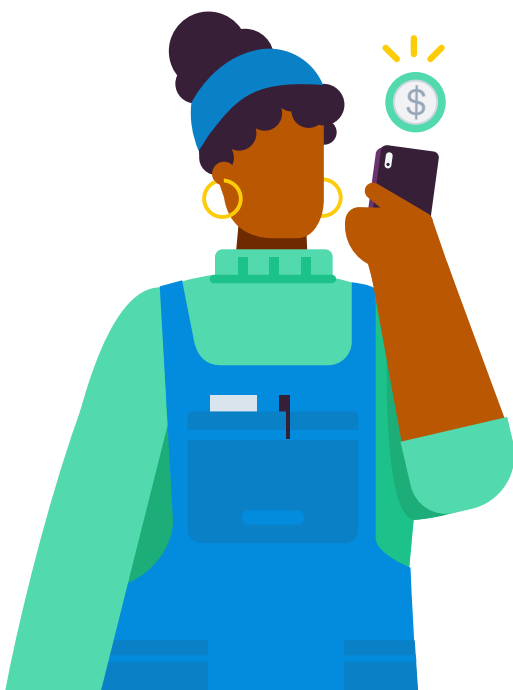
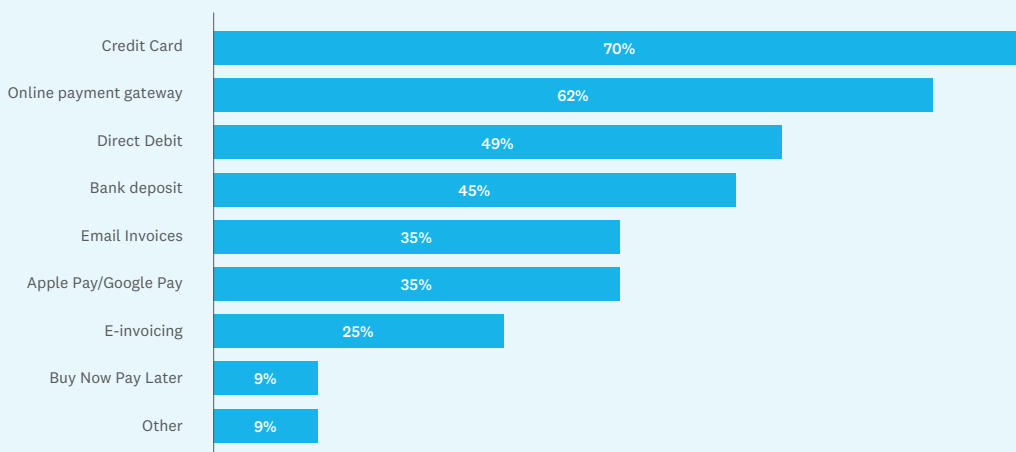
**Tip:** Increasing prices is a difficult decision and can be a fine balance between making enough of a profit while not deterring customers. **If you have a new service or product in the pipeline, you can use this as an opportunity to reset your pricing.** Speak to an accountant or bookkeeper if you're unsure, as they can help you understand your costs and refine your pricing strategy.

## Exploring new payment methods to pay and get paid

The survey found that small businesses are utilizing various payment strategies to improve their cash flow management. This includes providing customers with a variety of payment options to make payment processing faster, including credit card (70%) and online payment gateways such as PayPal (62%). Over a third (35%) are allowing customers to pay using their smartphones to encourage faster payments.

Small businesses still face a number of barriers when exploring new payment methods. The top hurdles to using new digital payments include a preference for more traditional payment methods (34%), lack of relevance to their business (31%) and not enough customers using these payment methods (29%). Over a quarter (26%) also believe the fees are too expensive with digital payments.

### Q: Which of the following have you used to help manage and/or improve cash flow in your business?



**Tip:** Think about how you can make it easier for your customers to pay you. **Adding a 'Pay now' button to online invoices in Xero** using one of our partners like Stripe or GoCardless **gives your customers the flexibility to pay the way they want to.** It also helps you get paid twice as fast, reduces the administrative burden with one integrated solution and means you spend less time chasing payments.

## CASE STUDY

# Uncle Tim's Cocktails finds the perfect blend for cash flow management



**Tim Felkner**  
Founder and CEO,  
Uncle Tim's Cocktails

Tim Felkner's passion for mixology and 15 years experience in the hospitality industry was the inspiration behind his business, Uncle Tim's Cocktails. "I had been making cocktails for people and really enjoyed creating those types of experiences. What started as a hobby and experiment making cocktails for friends and family eventually evolved into the idea for Uncle Tim's Cocktails."

However, it wasn't until the COVID-19 pandemic that Tim found the opportunity to turn his passion into a full fledged business. "My high quality bottled and canned cocktails business really started to take off as people were stuck at home and couldn't get to bars and restaurants during lockdowns." This marked the turning point for Uncle Tim's Cocktails, leading to its official launch in early 2022.

Tim's experience managing several restaurants guided him towards Xero for his new venture. "I used Xero for the last few restaurants that I owned and managed. I just really enjoyed the software," he noted. Xero's user-friendly interface and extensive integrations was one of the reasons he chose it.

Today, Uncle Tim's Cocktails relies on an ecosystem of apps, including Shopify for the online store, Square for the point-of-sale at events and Gusto for payroll. Xero serves as the central hub for financial data integration, providing Tim with a holistic view of the business' financial health. "All those tools are very helpful to have directly linked with Xero to remove a lot of the manual data entry."

Tim uses Xero to manage his cash flow and get a visual business snapshot. "Xero is really the only place where all that financial data can live, so that's where we get most of our information on how the business is

performing. Once everything has been reconciled at the end of the month, I use the monthly reports to dig into our profit & loss statements and balance sheets to plan ahead."

Tim also uses Xero's cash flow forecasting capabilities to fuel the business growth. "We're growing very quickly and we're using our cash flow analysis to know how much money we can put back into the business to continue to grow. As we grow, we're ordering more supplies and putting more money into our inventory, so it's important that we're diligent about our cash flow and how to use it for growth."

Amid higher inflation and rising supplier costs, Tim took several proactive steps to manage his cash flow including adjusting pricing, negotiating with suppliers and optimizing payment methods .

**"Some of our suppliers were starting to raise prices, so we went around to each of our suppliers to negotiate 30 day payment terms, to give us more of a cash flow advantage. We also added payment buttons to our invoices and accepted credit card payments for faster payment processing."**

How can small businesses navigate a tougher economic environment over the next 12 months? Tim said it starts by knowing where your money is going. "We pay close attention to our outputs, whether that's the cost of goods, supplies or labor. That way you can be prepared for any market fluctuations and try to do things to your advantage for cash flow, whether that's changing supplier terms from 60 days to 30 days or offering payment via credit cards. The earlier you plan, the more resilient you'll be."



## Room for improvement when it comes to cash flow forecasting

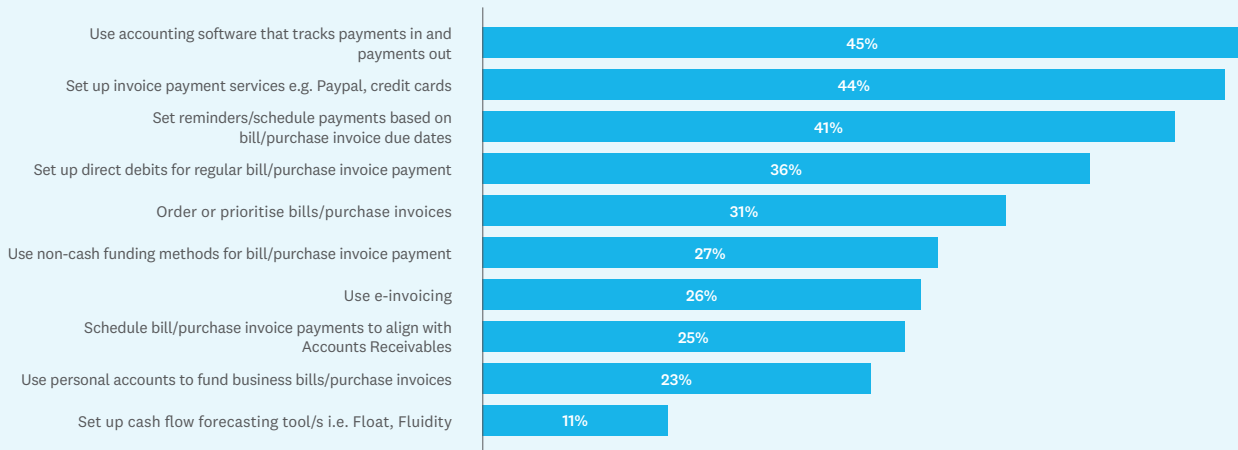
With cash flow a top priority, half (50%) of small businesses are checking or monitoring their cash flow daily.

Digital technology plays a crucial role in daily cash flow management, by helping businesses to monitor cash coming in and out of the business, and to get a snapshot on how the business is performing. That is why 70% of small business leaders use digital tools when reviewing their cash flow.

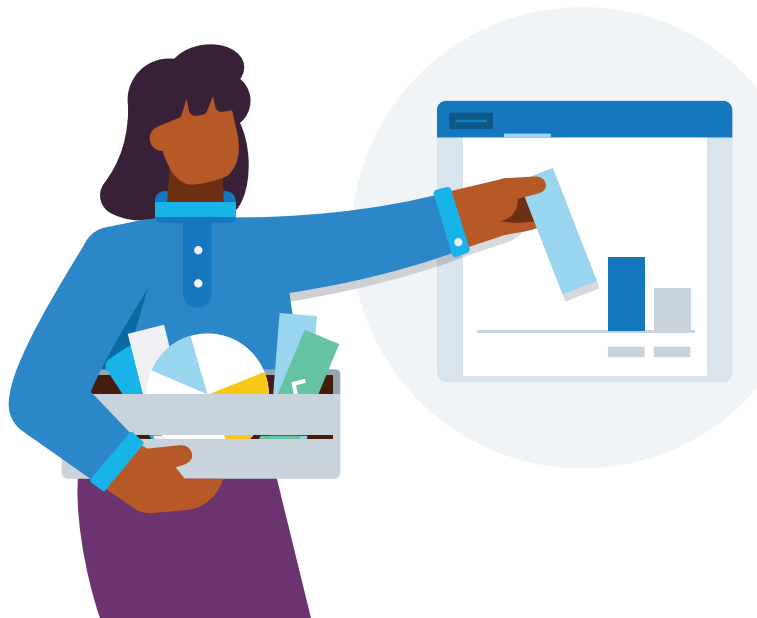
Over two in five use accounting software to track payments (45%), have set up invoice payment services (44%) and set payment reminders on invoices (41%) to manage cash flow within the business.

However, small businesses could be overlooking the importance of longer term financial planning such as cash flow forecasting, with only 11% utilizing a cash flow forecasting tool.

### Q: Which of the following measures do you take to manage cash flow within the business?



**Tip:** Cash flow forecasting helps you navigate your financial future with clarity and confidence. With the right tools, **cash flow forecasting is effective in identifying potential shortfalls in advance, allocating resources more efficiently and addressing potential challenges before they become critical.** In the US, [Xero Analytics Plus](#) is available to customers on established and premium plans, and uses data from your Xero account to analyze trends, give better forecasts and actionable insights.



## CASE STUDY

# Pathfinder wires the path to profit with cash flow forecasting



**Tabitha Davies**  
Accounting Coordinator,  
Pathfinder Broadband

Internet service provider Pathfinder Broadband was born from a mission to bring connectivity to remote areas, particularly around the canyons of Colorado. What started as a local endeavor to provide services to underserved communities has today expanded into a nationwide venture, offering cost-effective and reliable internet access solutions for individuals and businesses in need.

Tabitha Davies, managing the accounting at Pathfinder Broadband, plays a crucial role in coordinating the financial aspects of the company. Tabitha has been with Pathfinder since its inception in 2017, leveraging her extensive experience in bookkeeping to help the company grow and reach more people.

Prior to Xero, Pathfinder faced challenges with its incumbent accounting software. These challenges led to frequent technical issues, creating an undue burden on the team. As Tabitha recalls, “It was just so hard to work with... there was always something going wrong.” Tabitha’s hunt for a more streamlined accounting solution led her to cloud-based accounting platform Xero.

**“One of the distinctions of Xero is its ease of use,” said Tabitha. “Being cloud-based is a major benefit. It means I can open up Xero in any browser and log in, even if I don’t have my laptop with me.”**

Xero’s intuitive interface has also led to more efficient cash flow management. “We can reconcile daily and produce cash flow predictions. I love how we can set

expected dates for invoice payments and planned payment dates for bills. The Xero menu is logical and it’s easy to find what you’re looking for.”

This ease of use has translated into better financial forecasting. In an industry with seasonal variations, Pathfinder’s ability to anticipate cash flow has become a significant advantage. As Tabitha explains, “During Colorado’s winter, sometimes we cannot continue construction as the ground is frozen and covered with snow. So, in summer we have a lot more work and Xero helps us forecast how our summer is going to go.”

Xero’s analytics and forecasting capabilities, including its 90-day cash flow forecasting tool, helps Pathfinder plan for sudden and unforeseen expenses. **“Xero’s 90-day forecast gives us a better view on what’s coming in and going out. In addition to predicting repeating bills, we’re able to account for one-off transactions, for example a \$30,000 purchase of equipment. We can put that into Xero and it will forecast our future cash flow. I wish I could quantify how much stress that relieves!”**

Despite an uncertain economic environment and perennial industry talent shortages, Tabitha is optimistic about Pathfinder’s prospects. “Internet service is one of those industries that people always need. During COVID-19, we saw our business boom. That doesn’t mean there are no challenges. But I feel like I have a lot more confidence facing those challenges, now that we’re using Xero.”

# Appendix

## About this report

This report is based on the collated responses from an online survey conducted by Researchscape International with 542 small businesses (up to 50 employees) across the United States, recruited from a mix of online market panels. Responses were collected by Researchscape International between June 15-June 20, 2023..

The information and commentary in this report is a guide only and should not be taken as taxation, financial or legal advice – we recommend you always check with an independent advisor that what you're doing is right for you and your business.

## Note

- All \$ amounts referred to in this report are in US dollars
- In some tables, percentages may not add up to exactly 100% due to rounding
- In some tables, percentages may add to more than 100% where participants could answer more than option

## Definitions

- **Small business**  
For the purpose of this report, when we use the term 'small business', we mean businesses with up to 50 employees.
- **Standard demographics**
  - Self employed or owner of a business that requires you to submit a tax return
  - Joint or sole decision maker when it comes to the management of the business
  - Senior Manager (not owner) that oversees the general accounting or finance function of my organization



Beautiful business