
Facing Uncertainty

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Small Business Cash Flow
Patterns in 25 U.S. Cities

Executive Summary



JPMORGAN CHASE & Co.

INSTITUTE

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Diana Farrell
Christopher Wheat
Carlos Grandet

Small businesses are a key pillar of the U.S. economy, providing income for millions of families and contributing to the commercial vibrancy of communities in cities.

Researchers, small business service providers, policymakers, and small business owners alike observe that cash flow management challenges are pervasive in the sector, but empirical assessment of cash flow challenges and their effects on small firm performance have been elusive.

This report builds on prior research by the JPMorgan Chase Institute and uses high-frequency administrative data to classify small business cash flow patterns. We analyze the effects of regular and irregular cash flow patterns on the survival and growth of small firms in and across cities.

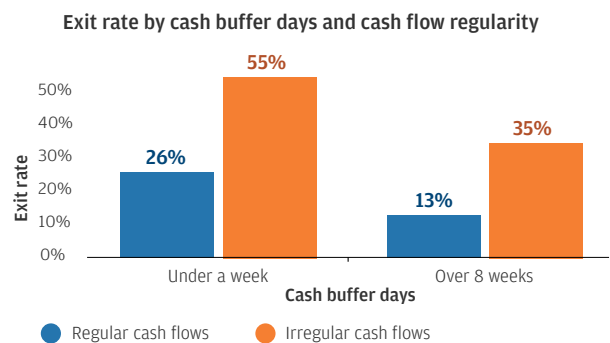
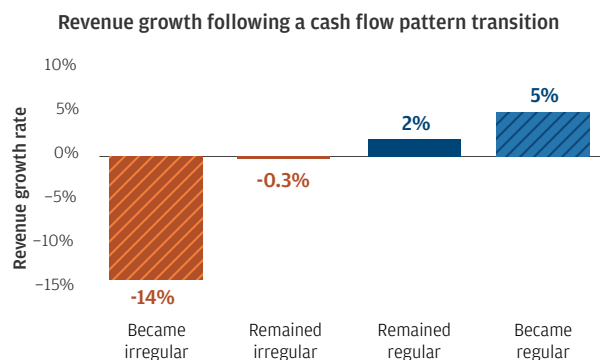
Our findings are three-fold:

Finding 1: Across cities, firms with irregular cash flows were more likely to exit and had slower revenue growth.

Finding 2: Firms with erratically timed revenues and expenses were most common among firms with irregular cash flows and most likely to exit, but firms with sporadic revenues had the largest revenue declines.

Finding 3: Firms with limited cash buffers and irregular cash flows were the least likely to survive.

These findings suggest that cash flow patterns may be as important as liquidity and access to capital as determinants of small business survival and growth. In addition, small businesses can face qualitatively different kinds of cash flow challenges. Policymakers, product designers, and other decision makers who support small businesses might be most effective not only by targeting their efforts to these distinct challenges, but also by targeting their efforts to the cities and communities where these specific challenges are most often present.



Source: JPMorgan Chase Institute

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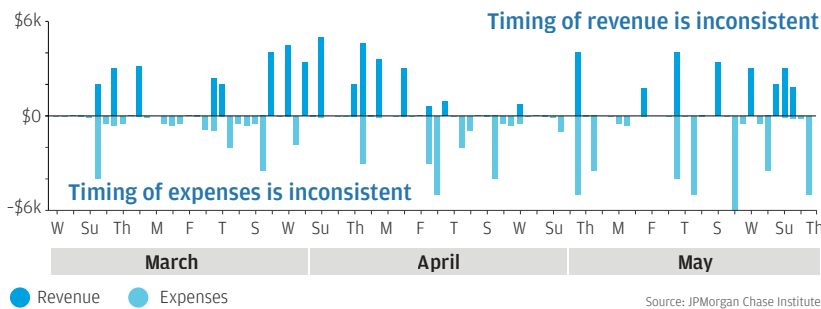
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Three Small Business Cash Flow Challenges and Three Ideas that Could Help

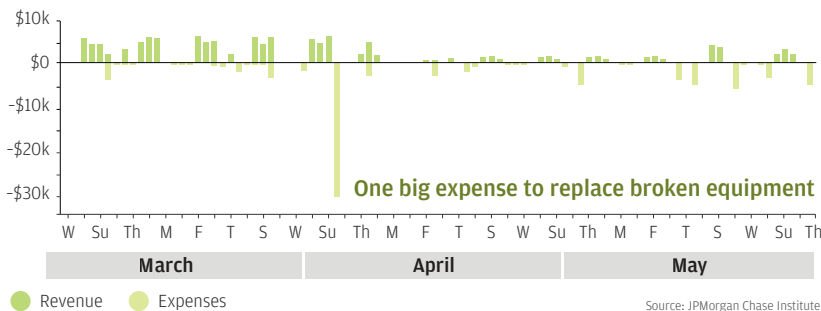
We identified three substantively distinct ways in which small businesses might have irregular cash flows. Programs, policies, and individual firm guidance may be most useful if directed to the specific kinds of cash flow challenges these small businesses face.

Small Business Cash Flow Challenge #1: Erratic Timing



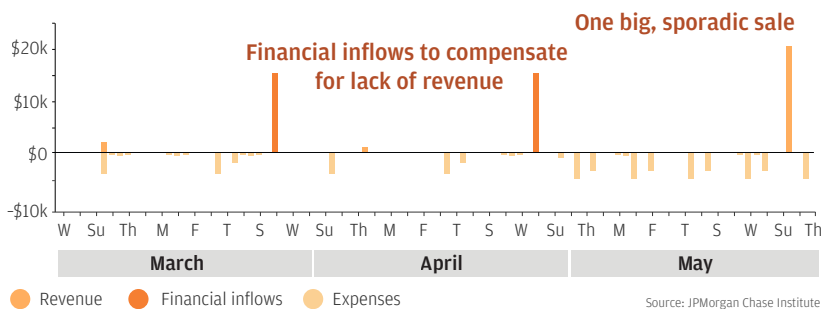
Small business support organizations could develop and provide trusted guidance to help owners of small businesses with **erratic timing** anticipate and plan for hard-to-predict customer payments and unexpected payments.

Small Business Cash Flow Challenge #2: Volatile Expenses



Public sector actors could design programs that facilitate the development and delivery of cost-effective products that deliver external capital more quickly to small businesses that have **volatile expenses**.

Small Business Cash Flow Challenge #3: Sporadic Revenues



Governments, public entities, and larger companies could develop programs that accelerate payments to small business suppliers with **sporadic revenues**.

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