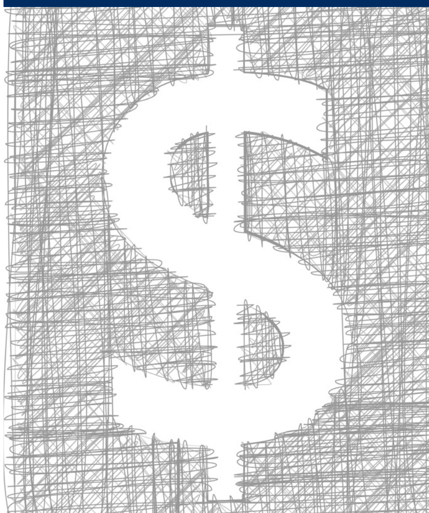
10 STRATEGIES FOR IMPROVING YOUR CASH FLOW

AMERICA'S SBDC CALIFORNIA
LOS ANGELES NETWORK



In a healthy business, as the cash flow cycle begins with cash used to acquire resources and ends in collection of payments, a little cash should be reinvested into the business or new resources. The effects of cash flow can significantly impact your business decisions and if not carefully monitored, could be regularly unrelenting. What can you do to monitor, safeguard, and employ your cash to work for you? Start with these 10 strategies to help improve your business' cash flow.

1. **PLAN:** A 12-month cash flow forecast is highly recommended, especially for businesses in a growth stage. As orders increase and overhead with them, your forecast will convey where you can expect increases in expenses, any payments that might be due at the same time, cash receipts, loans and any other cash inflows. Plan week by week, as it will convey upcoming short term cash demands. Download this handy 12 month cash flow statement template for a jump start.

2. **ORGANIZE:** Catalog your suppliers and customers. For suppliers—divide them by your "regulars" and those you seldom use. Try negotiating better terms with your "regular" suppliers and consolidate vendors that may offer the same items; ask for a discount based on increased order volume. Investigate your "best customers"—identify if they're truly profitable and their repayment habits, then adjust your payment follow up process or invoicing methods as needed.

3. **NEGOTIATE TERMS:** First, confirm that your credit terms with your current customers and suppliers are in writing. For new suppliers, establish terms upfront, an agreed upon payment method, and an acceptable repayment period. Some suppliers will allow for payment 15, 30 or 60 days after delivery or discounts for early payment. If you setup different pay periods for different suppliers it gives you some leeway for repayment while you collect your receivables. Last, assure your A/P department is paying its bills on time to maintain a positive rapport. Review your supplier terms every year and assure you are receiving a fair price for your supplies. If not, consider renegotiating prices or switching suppliers.

4. **PAY SHORT TERM EXPENSES WITH A CREDIT CARD:** For shorter term expenses e.g. a utility bill, consider paying with a credit card. Since most credit cards have a 30 day repayment period, paying by credit card is a tool to free up cash during the month. The key is to pay the balance on the credit card before interest accrues; avoid paying minimum payments if possible. Credit card comparisons here.

5. **CREATE A PRICING STRATEGY:** Are you offering your products or services below the market price? Research your competition and the rate for similar products/services. Consider increases in minimum wage beginning July 1, 2014, possible increases in supplier prices and any other increases in overhead. Then, create a pricing strategy that allows you to slowly increase your prices to offset any expected increases in operation costs. If your business renders services for different types of customers e.g. government or other businesses consider charging bigger clients upfront or on a project basis while charging in stages for other clients. This allows you to purchase some of your goods and continue operations without holding the entirety of the receivable.

6. **REVIEW UNPAID ACCOUNTS:** Create a list of all of your A/Rs due and past due, list the accounts first by largest unpaid balance and then by earliest due date. Avoid waiting more than 60 days past an invoice due date to discontinue credit and disregarding unpaid invoices after 25 or even 50 days, as these could become late. Conduct reminder calls and generate second invoices as needed.

7. **REVIEW YOUR DEBT COLLECTION PROCESS:** Set up your electronic accounting system to generate invoices to customers with stronger language so they will bring their accounts current. For larger clients, call a few days before the due date and assure accounting has all the documents needed, if a group of customers tends to be late a reminder call a week before could be helpful. If you do have a consistent problem with late payments, consider an in-person visit to reiterate that if a credit limit is defied you will have to withhold goods in the future. It is also important to review how long it is taking you to resolve disputes and resolve unsettled invoices.

8. **ACCELERATE CASH INFLOWS:** Ease your customer's decision to buy, adjust inefficiencies in how you take orders (e.g. telephone, online, etc.), and if you offer monthly services, consider offering a one-month discount for paying the entire year upfront. Eliminate any unnecessary monthly or yearly subscriptions. Review your credit approvals and assure you're checking your client's credit history and references. When you invoice, do so with a brief, effective and accurate invoice; avoid advertising and convoluted language. Next, if you need to specify shorter repayment periods for some customers, do so as appropriate. Last, review the time it takes for delivery of payment, check clearances etc. and consider direct deposit payment incentives for your customers, if possible.

9. **CONSIDER OPENING A LINE OF CREDIT:** A line for credit for emergency situations is especially helpful. Try opening a line of credit during a time when cash flow is steady, so if an emergency arises in your business, the cash is there when you need it. Don't forget to save during high-income months!

10. **PUT YOUR EFFECTIVE CASH FLOW MANAGEMENT TO WORK:** Knowing where your business' cash is tied up whether in unpaid invoices, inventory or the like allows you to potentially: reduce your dependence on loans and decrease interest payments, identify cash surpluses and potentially earn interest on cash elsewhere, plan ahead strategically in your business, spot cash gaps and act fast to reduce impact on your business.

The Los Angeles Regional Small Business Development Center Network

866-588-SBDC
www.smallbizla.org

Don't forget to save during high-income months!

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