

Managing Cash Flow And Increasing Cash Balance

by Robyn Barrett

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The phrase “Cash is King” has never been more true in business than it is today. Unfortunately, while many companies are finding themselves short on cash, lending requirements have

become extremely stringent. Moreover, increasing sales don’t always equal increased cash flow — especially if the sales are credit sales. Managing cash flow effectively requires close attention, just like managing the rest of your business. The good news is that a little attention can go a long way toward increasing cash balance at the bank.

As with all good things, a little work is required so let’s look at how you can improve some of your operating processes and manage cash flow, which will increase cash.

Here are a few tips that can have an almost immediate impact on managing cash flow and cash position:

1. Set a price and term policy, then stick to it

Make sure all employees understand the importance of discussing pricing and payment terms during the sales process. Often the emphasis is placed on “getting the sale,” not “getting paid.” When customers delay payments, they’re using your cash and costing you money. Basically, you are financing their business. Be diligent about setting payment expectations right from the beginning with your customers.

2. Send out invoices in a timely manner and follow-up promptly

The quicker you send out the invoice, the sooner the clock starts ticking for a customer to pay. Send out invoices promptly and follow-up immediately with a courtesy call. A courtesy call isn’t a collection call but a call just to check in with the customer and make sure the invoice has been received.

3. Offer payment options

Do you only accept checks? Offer other options such as electronic transfer, wire payment or credit card. Make it easier for customers to pay you.

4. Clean up inventory

When was the last time you took a look at your inventory? Are you still selling Sony Walkmans? The 80/20 rule applies to inventory - 20 percent of that inventory is turning while 80 percent sits idle, taking up space and costing money to finance. Consider running a clearance sale or re-merchandising product to free up this cash.

5. Ask vendors and suppliers for a discount

When you purchase goods or services, always ask if there is a discount offered for paying early or with cash. A five percent discount for paying now, versus in 30 days, is like getting a 60 percent discount on an annual basis. Don’t be afraid to ask; the worst they can say is “no.”

6. Customer deposits

If you’re offering aggressive pricing or giving concessions, don’t be afraid to ask for something in return. This is a great time to ask your customer to pay a deposit at the time of order, or prior to starting a job. This helps cover your up-front costs, and the risk associated with non-payment is decreased when your customer has some investment in the transaction.

7. Require a minimum order for credit sales

Invoicing, collecting, receiving and depositing checks is a time-consuming and expensive process. Establishing a minimum credit purchase requirement eliminates having to chase small amounts, promotes larger orders and collects payment for smaller ones at time of sales.

Cash flow is the lifeblood of your business. You can sell a million widgets, but if you only get paid for 50 percent of them, your business is destined to fail. Making changes to your operating processes and managing cash flow is a way to keep your business healthy, vibrant and able to meet its obligations.

Robyn Barrett is founder and managing member of Factors Southwest LLC, specializing in factoring financing for small to mid-size companies. For more information about managing cash flow and increasing cash balance, visit:
www.factors-southwest.com