

Cash flow strategies can keep you in black

A cash flow gap can make it difficult for business owners to meet their financial obligations and make the most of emerging opportunities. To achieve a positive cash flow, your company must have a sound strategy for accelerating cash and delaying outflows. Here are some recommendations to help boost your company's reserves and help your business grow.

SOUND CREDIT PRACTICES

It is important that you adequately check credit information on new and existing customers before offering credit. For new customers, you should obtain at least three trade references, and you might also consider using a commercial credit reporting service such as Dunn & Bradstreet to verify a company's credit-worthiness. Never grant credit until you are comfortable with the customer's ability to pay. Also, request a deposit from a new customer, particularly if the order is large. This not only helps your cash flow, but also can cement the relationship.

BILL PROMPTLY

Mail invoices the same day you complete the work or ship the product. The sooner you bill, the sooner you get paid. If you accept a job that will take a long time to complete, notify the client that you will bill in stages.

ACCELERATE PAYMENTS

Some customers will pay sooner if you give them an incentive to do so. Consider offering a cash discount to fast payers. This could attract new customers who look at cash discounts as a form of price reduction.

Don't feel guilty about asking to be paid on overdue accounts. CPA's say you should be hard on the issue but soft on the person. If a good customer is having legitimate financial problems, try to arrange to get at least a small payment each week. Whenever you receive payments, be sure to deposit checks quickly.

Aggressively follow up on overdue invoices. When an invoice reaches 45 days beyond your terms, engage the services of a collection agency. Recognize that the longer someone owes you, the less likely it is that you will be paid in full.

PAY BILLS ON TIME, BUT NOT BEFORE THEY ARE DUE

When it comes to paying your company's bills, you should take as long as you're allotted without incurring late fees or interest charges. An exception to this rule applies when suppliers offer you a discount for paying early. If you have the cash reserves available, do it.

MONITOR INVENTORY LEVELS

Your company's profitability depends on the successful and timely sale of its products and services. Maintaining inventory levels at less than what is needed to support demand may result in lost sales and delays for customers. On the other hand, excess inventory places a burden on cash reserves.

Compare your inventory turnover to industry norms, and rely on historical sales data and forecasts to set inventory levels. Remember stock sitting on shelves for long periods ties up money that could be used for other cash outflows. Sell off outdated, slow-moving merchandise. Donate what you can't sell.

MANAGE SUPPLIERS

The easiest way to slow down your business's cash outflow is to negotiate with suppliers for more favorable terms. While most suppliers want payment in 30 days, some may be willing to extend terms if you are a good customer with a good payment history. Remember, if you can get better payment terms, you will lower your costs.

Developing multiple sources of supplies keeps vendors on their toes. Finally, do not buy more than you need or more than you can expect to sell, regardless of how favorable the sale or the credit terms the supplier offers you.

LEASE, DON'T BUY

In the long run, leasing equipment generally costs more than buying, but the cash flow benefits may justify the increased costs. Expensive equipment purchases can tie up cash that could be used for day-to-day operations.

COMMUNICATE CASH FLOW PLAN

Be sure to inform your staff about how they can contribute to improving the cash flow of your business and monitor their efforts.

If you are cash tight, you may want to consult with a CPA for more specific strategies on improving your company's cash flow.

■ Courtesy of the California Society of CPA's, a professional organization based in Glendale.