

8 Ways to Increase Your Cash Flow

Nearly every business owner has heard ‘cash is king’ and/or ‘it’s all about cash flow’ at some point in their business life. The true truth is that how cash flows in your business is vital for you to know, understand, and respect. Every day I hear about cash flow problems from business owners. In virtually any economy, most of us will be having cash flow concerns. These days I’m hearing that sales of most retail businesses are recovering from the lows of a few years ago but are still below pre-recession levels. If you don’t understand the different ways to improve your cash flow, you can get stuck thinking you have no options. If you are having cash flow concerns, chances are it is difficult for you to get a loan from a bank.

My clients are constantly finding inventive ways to solve their cash flow challenges. I want to share some of their ideas hoping they will be helpful to you. I’ve broken these down to 8 ideas to help your business.

Note: Before you take actions to improve your cash flow it is very important for you to understand what your business cycle is – in other words, how money moves in your business – cash inflows, outflows, inventory, profit, expenses, sales etc.

1. **Create a Positive Cash Flow Cycle:** The cash flow cycle refers to the difference in timing between when you pay for products or payroll and when you get paid by your clients or customers. This seems pretty straightforward, but most businesses have staggered timelines between cash in/out flows; you should work to have them work to your advantage. A negative cash flow cycle means you pay out before you get paid. A positive cash flow cycle means you get paid before you have to pay out. One client recently asked her vendors for 30 day terms and got it. It put her into a positive cash flow immediately. Other clients have started to ask for ½ down before they start the job and some clients offer small incentives for paying accounts receivable early.
2. **Increase Your Average Sale:** If you can get your customers to buy more of your products or services, for more money, and more often you will increase your average sale. When your average sale goes up more dollars go into your bank account. I have one retail client that started carrying more upscale products, increased her prices on some items, and bundled or packaged some products together. She saw an immediate improvement in her cash flow. Do you know what your average sale is? Do you know what items tend to sell together (one item encourages the purchase of another)? Knowing these basic pieces of information can radically improve both your cash flow and profitability if you use them wisely.

3. ***Increase Your Sales and Marketing Efforts:*** This is a hard time for building supply companies. One client opened a building supply company before the real estate market slow down. Oops! So, he took a gamble and advertised on TV. It was hard to spend the money, but the results have been increasing sales every month since he opened. Another client doubled her sales force and has increased sales every month through the downturn. There really is a lot of opportunity out there. In many cases you may be facing significantly reduced competition in your markets. How well do you know who your current competitors are and what they are doing? Where are the opportunities to grow your market share?

4. ***Cut Your Costs:*** This one seems like a no brainer, however, many of my clients have been slow to do the difficult cost cutting that is required to stay or become profitable. One of my clients has very slow to cut costs. We worked together and talked about each of her regular expenses and explored other ways to get what she needed without spending as much. We found several creative ways to cut costs without hurting productivity or customer service. Sometimes cutting your costs can be as simple as asking your vendors for better terms and prices – they probably don't want to lose you as a customer (especially if you consistently pay on time!)

5. ***Reduce or Restructure Debt Payments:*** The payments you make on business debts, because they are always paid in cash out of your checking account are an important area that directly affects your cash flow. One client talked to their banker, but the banker was reluctant to refinance or restructure the debt. I told this client that the secret was to talk to a bank other than his own. Banks other than yours view gaining your deposit and loan accounts as a big win. Your current bank doesn't always appreciate your accounts until they are about to lose them. Needless to say, this client did well in lowering their debt payments and received some other nice perks as well. (Naturally, this becomes a challenge if your loan is not current or in default – restructuring is not the same as a 'workout').

6. ***Reduce or Eliminate Capital Expenditures:*** One business I worked with had a very tight cash flow because she was growing. Growth always creates a drain on cash. She needed equipment and trucks to get to the next level. Buying new stuff was out of the question. She started asking people she knew for what she wanted and got the equipment and trucks for almost nothing. Get creative with your thinking and put the word out – there is

an amazing amount of ‘gently used’ equipment and tools available from businesses whose poor cash flow caught up with them.

7. ***Increase the Productivity of Your Team:*** I worked with a small business with a tight cash flow that was doing about \$900,000 in annual sales but there was very little profit – they were just breaking even. We determined through a break even analysis that if we increased sales to \$1,300,000 they could add about \$100,000 to the bottom line. When they came back the next year they had actually increased their sales to \$1,700,000, but there was still no profit. Based on the numbers, our analysis of the situation was that they hadn’t increased the productivity of their people. When they added new business, their staff costs expanded with their sales. The idea is to find ways for your staff to be more effective, with less effort and cost.

Pay attention to what actions in your business actually increase your profit – not just increasing your sales. It is common that you could actually increase your profits without increasing your sales at all – you have to know and understand how profits are generated in your business.

8. ***Increase Your Prices:*** No I’m not crazy. Psychologically, increasing prices is one of the hardest things for business owners to do. I’ve worked with many non-believers who take the leap with me to explore this option. I convinced one business owner to research the prices her competitors were charging. We found that her prices were at least 25% below those of her competitors. We experimented with pricing and found that some items actually sold faster when they were priced higher. One business owner increased his prices by just \$1. It added an extra \$3,000 a month or \$36,000 annually to the cash flow.

We all know that “cash is king.” Cash is the key to surviving the tough times and thriving in better times. By working smarter as well as harder you will improve your chances of survival and increase the value of your business.

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