



# **BUSINESS ACCELERATOR PROGRAM**

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## **IMPROVING CASH FLOW**



By James McNamara



# Improving Cash Flow

## Introduction

Cash flow, all the incomings and outgoings of cash, represents the operating activities of your company. It is your company's payment of day-to-day expenses and generation of income. Cash inflows result from money generated through borrowings, income earned through the sales of goods and services, or money earned from investments.

Your company will experience **positive cash flow** when there's more cash coming in than going out. But your company will experience **negative cash flow** when there's more cash going out than coming in. Since cash flow is dynamic, a momentary negative cash flow does not imply that your company is suffering a loss. Healthy cash flow is an indication of business success.

Improved cash flow should be a companywide priority. Make certain all your employees realise the importance of better cash flow. Remember, the outflow part of your company's cash flow is never a problem. And that's because money always runs out of your business easily. But keeping the money flowing in on a steady, sustained basis is the tricky aspect of **cash flow management**.

## 10 Useful Cash Flow Strategies Summarised

Below, 10 strategies are summarised for improving the cash flow of your company. This list of cash flow strategies is not meant to be exhaustive. It does, however, include some practical low-cost and no-cost strategies that you can implement into your business immediately.



Take notes on the ideas you can implement into your business wherever you see this symbol .

Here are the strategy summaries.

### 1. Establish / Tighten Payment Terms

If your business is primarily B2C, you don't have to extend credit to your customers. But B2B is a different ball game. Many of your customers – including new ones – want to pay you *after* the delivery of your product/



service. Some customers seek more time – ranging from 10 days to two weeks and sometimes, even three or four weeks. Change the credit terms of customers who have a history of slow payment. Only then you can improve your cash flow. Refuse credit if it's necessary but do it tactfully. Send a polite note expressing your inability to extend credit at this time. State the reasons also. But inform your customers they're welcome to transact in cash (sweeten the deal by offering them *cash discounts*).

### Credit Checks and Customer Credit History

Prevention is the best medicine. Credit checks on all your *new* non-cash customers are mandatory. Since NOT getting paid will hurt your cash flow, you should remain vigilant and avoid future problems. Conduct credit checks on your customers in advance by contacting credit agencies. Purchase status reports of new customers before you extend credit to them. Get full details such as recommended credit rating, financial results, payment experience of other suppliers, and court judgments, if any. Play the '**cash card**' if the credit history of new customers is not *exemplary*. Remember this business maxim: **many customers are great purchasers but poor paymasters.**

Another simple way to assess a customer's credit history is to ask them for three Trade Referees. Ask these Referees questions like:

- How much does the customer in question purchase from them?
- When was the last time they purchased?
- How much do they typically spend?
- How do they pay and how quickly?
- How long has the customer been buying from the Referee?
- Etc.

You can delegate this to one of your support team to contact the referees, ask the questions and give you a summary. Compared to the dramas of late or non payers, this little extra effort is well worth it. Make it part of your system.

### Enforce Payment Discipline

If you want to reduce the timeframe of your receivables, you should put in place an excellent collection system. Establish terms that include protections



in all your business dealings with each customer and in every transaction.

Improve your cash flow by constantly monitoring:

- Your collections activity.
- The contact level with your customers.
- The period it's taking to get paid.
- Payment delays that could accelerate to disputes if not resolved quickly.
- The implementation of policies to resolve instances of payment disputes.

WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?




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## 2. Implement Deposits

In a service or high turnover business, you have to be prepared to say “No deposit = No job” to your customers. Why? Because **No deposit = 100% risk**. So, implementing deposits delivers you two instantaneous benefits: your customer's commitment, and swift cash flow. When your customers pay you a deposit before you start their project, it'll help you cover the upfront costs. You should collect this deposit when the contract is signed. The risk associated with non-payment decreases because you've received a portion upfront. Alternatively, you can collect periodic payments – 30%, 20%, 30%, and 20% – throughout the contract so that the cash flow is consistent.

### The Dangers of NOT Implementing Deposits

If you can't collect a deposit from a customer, don't take the job. Period. Many good, hardworking, honest people have been driven to bankruptcy because of NOT collecting an advance payment from their customers. If it's your first big contract, it makes even more sense to collect a deposit. After all, you are doing the right thing because you need the cash flow to be successful. Imagine you are an outstanding cabinetmaker who's got off the employee train recently. If you don't collect a deposit, how can you do the job?



### Collecting a Deposit Eases Cash Flow

Cash flow is important for a small business. If you need to purchase a product and then sell it to a customer, your financial risk is reduced considerably when you collect a deposit before the product is delivered to your customer. Even if the product is in your inventory or can be sold to other customers easily, you can still reduce your risk by collecting a deposit from the customer. You need to look at implementing deposits like this: *if your customer doesn't pay you now, they may not be willing to pay you later either.*

WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?



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### 3. Get Invoices Out Quicker

If the money owed to you sits in your customer's bank account, it can seriously interfere with the cash flow of your business. So, you should get the basics right. Invoicing promptly is your first step. And make certain you invoice the right amount. Send it to the right place. If you put off invoicing by even one day, it gives your customer the impression that you are careless about collecting your money. Second, you should take concrete measures to encourage prompt payment. State payment due dates clearly. Be double-quick in sending overdue notices. Don't hesitate to use collection services whenever necessary. Getting your money is better for the cash flow of your business than being *saddled with bad debt.*

### Organise Your Billing Schedule

When your receivables turn over fast, you'll be able to spend more capital on growing your business. Use an accounting software program such as Xero, Myob, Quickbooks, etc. to help you bill early. These programs are not only accurate, but they also classify the age of your accounts receivable automatically. You'll know the receivables that are fewer than 15 days old, between 15 and 29 days, between 30 and 45 days, etc. You can customise these programs too. This type of automated flagging system permits you to act swiftly on overdue accounts.



### Make Certain Your Invoice Encourages Action

Consider whether your invoice encourages action or inaction. For instance, many companies send invoices that simply state 'Payable upon receipt'. Some invoices also have boxes labelled 'current', '15 days', '30 days', etc. These invoices broadcast to your customers, 'Pay me at your convenience' instead of insisting 'Pay me NOW'. Slow payers will exploit the weakness of your invoice to the hilt. They'll use the 'The cheque's in the mail' line to counter your request for payment. So, use invoices that insist on prompt payment. Your invoices should clearly indicate a specific date of payment. For instance, your invoice should state 'Due on May 31, 2016'. It should NOT state 'Due in 15 days' or 'Payable upon receipt'.

WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?




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## 4. 25-Day / 33-Day Calls

You know that cash flow is critical for your company. And it's pretty obvious that you can get paid only if you send an invoice promptly. So, you need to remain in control of your receivables at all times. Otherwise, your cash flow will get choked. Follow a set of procedures consistently. Grant exceptions only when warranted. Don't delay asking your customers for the money that's rightfully yours. Suspend supplies of products/services to customers who haven't paid their past due invoices

*25-Day / 33-Day Calls* is a great strategy for the late payers in your customer list. It is not required for those A-Grade Customers who pay on time.

Your Accounting software can give you information on "Average Debtor Days" per customer. Take all of the customers who average more than your standard payment terms as listed on your invoice and implement this simple system:

Step 1: Assuming your payment terms are 30 days, give your customer a call at 25 days and say:

*“Hello Mary, I’m just giving you a courtesy reminder that our invoice #2567 for \$1498 will be due for payment in 5 days time, on the 25<sup>th</sup> of May. Will everything be OK for you to pay that on time?”*

After the customer confirms, simply thank them for their time and end the call. You can also send a follow-up one line email such as:

*Thanks for your time on the phone just now Mary and for confirming that our invoice #2567 for \$1498 will be paid by the 25<sup>th</sup> of May.*

Step 2: For any customers who have not paid their invoice by day 33, give them a call and say;

*“Hello Mary, this is just a quick call about our invoice #2567 for \$1498. We haven’t received payment on this end yet. Can you check if that has been processed at your end for me please?”*

If you are told that it hasn’t been processed, let them know that you were assured 8 days ago that it would be paid on time and ask them for a definite time of payment.

If you are told that things are tight, negotiate a % payment, nothing less than 30%.

Making the calls and speaking to the decision maker is the fastest way to ensure that you collect your money from late payers. You can delegate this to one of your support team if you support them with scripts and coaching.

You can also implement this strategy with reminder emails at the 25-day mark and a statement/copy of invoice at the 33-day mark. While the emails can often be automated via accounting software, they are far less effective for the type of character that chooses to pay late. Phone calls are most effective.

Remember Late Payers need to be managed differently. *If these particular customers sense that you will permit them to pay late, they will.* So, don’t give them a chance.




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## 5. Negotiate Longer Payment Terms with Suppliers

This does not mean become a late payer yourself. This strategy is about talking with your suppliers and negotiating longer payment terms. Particularly, extending from C.O.D., 7-Day or 14-Day terms out to 30-Day terms. This needs to be done in consultation with your supplier and only with their agreement.

See if you can extend the outstanding payments to your suppliers. While different industries have different customs and timeframes, 45 days to 60 days is the norm. A handful of big companies pay their suppliers after 120 days. You don't need to aim for this *unethical* timeframe, though. But still, you should renegotiate the payment terms with your suppliers. Consider these terms as a line of credit that's interest-free. It makes business sense to give yourself enough time to collect all your receivables without spending a dime on short-term credit lines. Doesn't it?

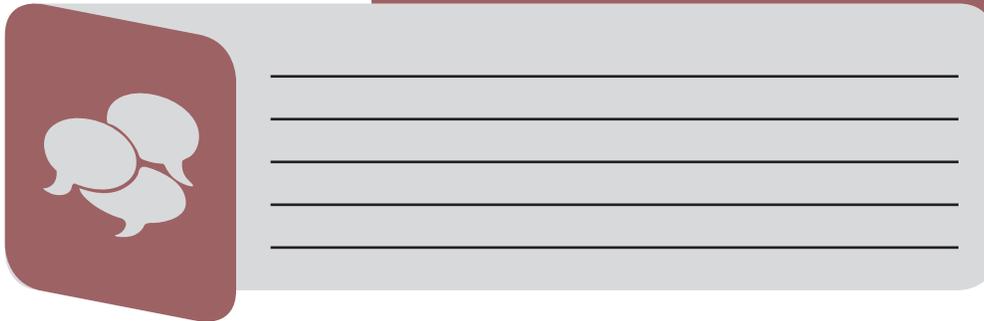
### Sure-fire Steps to Improve Your Cash Flow

- When you choose suppliers, don't focus on the lowest price. Look for the most flexible payment terms instead. Bargain-basement price isn't always the best option for improved cash flow.
- Take *100% advantage* of creditor payment terms. Don't pay an invoice in 15 days when the payment is due in 30 days.
- Remain current with your suppliers by using electronic funds transfer. Make payments on the last day the invoices are due. This strategy will enable you to retain the use of your funds for the optimal period.
- Communicate with your suppliers weeks in advance if you need to defer payment. Inform them of your financial situation because you need their trust and understanding.

### Renegotiate Contracts to Ease Cash Flow

Lenders, contractors and landlords are also affected by changing economic conditions. So, you should try to renegotiate with them, especially during an economic downturn. For instance, if the lease on your bricks-and-mortar premises is high, you should try to negotiate a lower rate with your landlord. You might be successful if other commercial properties in your neighbourhood stand empty. A lower lease will certainly ease your cash flow.

WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?



## 6. Reduce Inventory

You commit significant amounts of cash when you overstock inventory. So, gauge your inventory turns regularly to make certain they are within your industry norms. Avoid purchasing more than you need. Don't let suppliers lure you with enticing discounts. If you fall for their ploy, you'll tie up more cash than necessary. Check your inventory periodically for outdated stock. You can either defer upcoming orders to exhaust your existing inventory or sell it at a discount to improve your liquidity. Invest the new cash into faster moving / higher profit stock.

### Employ a Practical Just-In-Time (JIT) Inventory

A JIT inventory system frees cash that'd otherwise be tied up in non-critical inventory. The advantages of JIT inventory include lower investment in warehouse space, a decrease in scrap and rework, a decrease in operating expense, a decrease in inventory levels, a decrease in purchasing lead time, and an increase in stock turnover rate. You'll need a great level of understanding with your suppliers, though. If your suppliers are inflexible, they may not be able to handle the additional number of deliveries that JIT inventory model entails. But with the most recent inventory management software, it's much easier to use the JIT inventory model.



### Inventory Carrying Costs That the JIT Inventory Model Reduces for Your Business

- Interest costs on financial investment into your inventory.
- Insurance costs covering your inventory.
- Storage costs.
- Property taxes on extra warehouse space.
- Inventory obsolescence and deterioration costs.

### Transform Your Dead Stock Into Cash

Free up money by selling your old inventory, even at big discounts. Although you might be reluctant to admit it, your old inventory is a liability. Getting rid of it permits you to use the freed up money to help drive sales in other fast-moving products and services.

WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?



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## 7. Do a Cash Flow Forecast and Review it Monthly

The first step in performing a good forecast is to get a good handle on where your cash flow stands right now and where it's likely to head in the future. Most small and mid-sized companies aren't prepared for all the overheads and outlay associated with growing quickly. For instance, more sales = a bigger inventory + more employees for your company. That's plenty of \$\$\$ going out upfront. You wonder, 'When will it all come back?' But you don't need to get blindsided by an unfavourable movement in cash flow because it's predictable. Just sit down and think through it.

### Use Cash Flow Management Software

Make accurate cash flow projections using cash flow management software. Technology can improve your cash flow, speed up your receivables, extend your payables, and make certain your company doesn't become overleveraged. All you need to do is monitor your cash flow on a week-



on-week basis. You'll know what to expect. There'll be no surprises, and you'll be better prepared for changes in your receivables. Using technology optimises your cash cycle and provides your company with working capital.

### Generate a Formal Cash Flow Projection

The first step to successful cash flow management lies in understanding the flow of cash through your business. Get up-to-date information about your numbers – budgets, debtor books, and weekly figures. The best practice for your company would be plotting a rolling 12-month forecast. Start mapping out all your incomings and outgoings, week by week. You'll know when the surges in expenses will come. For instance, there could be a surge ahead of your big annual sales season. You'll also know when multiple payments will fall due all at once.

### Set Up Purchase Order System

Purchase Order (PO), a request for an order, is the document you send to your supplier. A Purchase Order is drafted by you, the buyer. Setting up purchase order software is simple and fast. Its effective usage is a critical component of any successful business. Details of the type of item, the agreed upon price, and the quantity are printed on the purchase order. When your order is more specific, it contains more details. Your purchase order should explicitly communicate your requests to the supplier, so there's no confusion upon its receipt. When a supplier (also labelled vendor or seller) accepts your purchase order, it results in a *legally binding pact* between the two of you.

### Purchasing Wisely is Indispensable for a Smooth Cash Flow

Your cost of doing business will shoot up unnecessarily if you don't pay adequate attention to your purchases. This is because your profit margins will shrink when your operating expenses increase. The only way you can compensate is by raising your prices or learning to live with lower profits. Both these choices aren't appealing. So, keeping your costs under control will enable you to keep your rates at competitive levels and earn a decent profit. And you can accomplish it by buying the right quality of materials or products and the right quantity, as well.

### Advantages of Purchase Order Software

- Enhances your business performance by tracking all your purchases.
- Sets appropriate approval mechanisms to prevent unauthorised or fraudulent activities.



- Accelerates approvals in real-time. Saves time and money by accelerating your purchase cycle.
- Maximises productivity by streamlining all your purchases.
- Paperless cloud purchasing eliminates loss of documents and prevents confusion. E-purchasing prevents headaches.
- Creates a 'checkpoint' on who's ordering and what they are ordering before your company is committed to the purchase. This will reduce mistakes, double ups and wastage.

WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?

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## 8. Have the 'Money Conversation'

Start a money conversation with your customers? Well, it's definitely practical. Talking to the very individuals who opt to do business with you can only improve your cash flow. While most companies give lip service to the notion of starting a dialogue with their customers, few actually do it. Why don't you join this elite group?

### The Importance of Existing Customers to Your Business

Now, let's agree on some universal truths up front:

- It's cheaper and simpler to retain a customer compared to getting a new one.
- It's cheaper and simpler to sell more to an existing customer compared to making your first sale to a new customer.
- Word-of-mouth marketing beats all other marketing strategies hands down. And this comes best from your current customers.

'So, how are all these elementary truths connected with my cash flow?' you wonder. You are aware that *communication* isn't an option in business.



Sharing valuable information with your customers is extremely important. Whether you want your customers to pay you within 60 days instead of 120 days, 30 days instead of 45 days, 10 days instead of 15 days, or today instead of tomorrow, you need to have the ‘money conversation’ with them. Otherwise, how will your customers know how you expect them to do business with you? If the delay is because of an issue at your end, fix it.

### ‘Money Conversations’ Are All About On-the-Ground Realities

Make it simpler for your customers to understand the exigencies and constraints of your business. Build the reputation of your brand so that your customers trust you all the way. Just because your ‘key customer’ generates a lot of revenue, it doesn’t mean it’s an account that’s profitable to your company. The biggest accounts of many businesses are actually their biggest money losers because they are poor paymasters. Likewise, check if your ‘key customer’ is adding to your cash flow woes. If they are, don’t cut their account. Because, that isn’t the solution! Instead, speak to them. Inform the customer about your cash flow situation. Well, that’s ‘money conversation’ in a nutshell.

WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?



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## 9. Get Debtors Report Twice Monthly (At Least)

Payment delays are the most vital inhibitors to positive cash flow. So, following up your debtors swiftly is mandatory. But being too busy or apprehensive to have that all-important conversation with your customers is certain to hurt your cash flow. Dealing with late-paying customers can be challenging. And *late invoice payment* has been the scourge of business owners in 2016. Hence, you should endeavour to enforce your payment terms systematically and not expose your business to needless risk.

### Install Debtors Report Software

An effective, foolproof collection process begins at the *Invoice* stage. There’s no point in waiting – and doing nothing – until a payment falls due. Be proactive instead. Communicate with your customers periodically. Schedule automated email, text, or voice reminders days before the bills are due.



Remember, not all your customers are compulsive late payers. Some customers who forget to pay before the due date because of oversight will appreciate the chance of being reminded. They're happy to avoid incurring penalties. Automated debtors report software enables you to improve customer satisfaction and retention. Additionally, you can improve your cash flow using technology. So, it's time for you to automate mind-numbing admin tasks and focus on growth. Customised software will generate daily, weekly or even fortnightly Debtors Reports.

### The Key Elements of Your Debtors Report

The Debtors Report will show you the amount you're owed by each of your customers on a specific date. You can use it to monitor:

- The amount each of your customers owes you.
- The accurate 'age' of each debt.
- The accounts of customers who owe you the maximum money.
- The credit limit of each of your customers.
- The accounts of customers whose invoices are overdue.
- The effectiveness of your current payment terms.

#### WHAT IDEAS CAN YOU USE IN YOUR BUSINESS?

A form for brainstorming ideas. It features a dark red rounded square on the left containing a white icon of three overlapping speech bubbles. To the right of this icon is a light grey rounded rectangle containing five horizontal lines for writing.

### 10. Offer Incentives For On-Time Payment

It is common now days to see a company offer on-time payment discounts. Consider the costs to your business of collecting overdue accounts, then consider the opportunity cost to your business of poor cash flow. What if that could all go away by implementing a 5% or 7% on-time payment discount. Electricity company's do this very successfully.



The good news is that you don't have to sacrifice margin to implement this strategy, if you combine it with a price rise. For example a 15% price rise couple with a 5% Pay On Time Discount. The effect on the customer who pays on time is just a 10% price rise.

You could further enhance this strategy by combining it with a 25-Day call to ensure people lock in their 5% Pay On-Time Discount.

#### Hints and Tips For This Strategy

- Ring your customers personally and let them know what is happening. Make sure they are fully aware of how to make this work in their favour. Even talk to their Accounts Payable person.
- It is important to be strict in your application of this. The payment has to be received on or before the due date for the discount to apply.
- Make it clear on your invoiced what the actual price is and that the discount only applies to payment on or before dues date
- Don't stand for 'cheeky' customers who pay the discounted price after the due date. Apply the difference as a Credit on their account.

