



Sustaining Your Business in Challenging Times

~ Controlling Your Cash Flow ~

I. RE-EXAMINE YOUR BUSINESS

- a. **Analyze**
 - i. What business are you in?
 - ii. What products or services do you offer?
 - iii. What do you do best?
 - iv. What should you focus on?
 - v. Look at your business from your customers view
- b. **Profit margins** per segment, department or product
 - i. Check your margins for each product separately; look for products that aren't profitable and rob profits from others
 - ii. Get rid of unprofitable segments, departments or products; clean house - they take time and money away from your business and affect your customers' view of your business.
 - iii. Review employee structure - consider cutting hours or jobs; hard to do, but sometimes necessary for your business' survival
 - iv. Use roving CFO's and temporary help as an alternative to full-time or part-time help you would have to pay regularly even during slow times

II. CASH FLOW ANALYSIS

- a. **Prepare a cash flow projection** - monthly revenue and expenses for one year; use it as a budget and cash flow analysis tool
- b. **Compare estimates vs. actual at least monthly** - compare revenues and expenses at least once a month. Look for deviations and ask "why?"; determine explanations
- c. **Symptoms vs. causes** - cash shortage is a symptom - you need to find what is causing the shortfall: could be waste, overspending, reduced sales, margins off, unexpected bills, etc.

III. MARKETING

- a. **Reassess your market** - markets are changing, are you?
- b. **Concentrate on what you do best** - don't try to be everything to everyone - it wears you out and confuses your customers' view of your business
- c. **Be customer sensitive** - are you supplying your customers needs or your own?

IV. PRICING

- a. **Investigate customer sensitivity** - quality, availability, service, etc. all affect why customers buy; price is not always most important; price also effects your customers' view of your product or service; pricing too low may make your product appear to be of lesser quality
- b. **Competition** - examine your competition closely; do they have faster service or better quality?
- c. **Reduce production costs** - reducing production and overhead costs helps you charge less and still make your margins
 - i. Examine expenses carefully - look for costs you can reduce, shop around for insurance, employee benefits, supplies (waste), etc.
 - ii. Examine vendors - analyze price, credit terms and service
 - iii. Check margins - be sure your sales price covers your costs

V. PURCHASING - Buy smarter

- a. **Use cash discounts** - some businesses offer substantial discounts if you pay cash when you purchase; *do this only if your cash flow allows*; if discounts require minimum purchases, consider sharing orders with other businesses
- b. **Purchase only as needed** - avoid purchasing huge amounts; large bills follow large purchases and tie up cash
- c. **Avoid building unnecessary inventory** - It costs money in storage charges and lost interest to keep excessive goods on hand; ties up cash while you wait to sell
- d. **Remember competitive market** - Look again at your suppliers: Are they competitively priced? Do they offer discounts? Analyze their credit policies; the "old" suppliers you've always had may not be the best for your business
- e. **Use trade credit** - don't borrow money when you can get it free; 30 days to pay is 30 days of free credit; pay suppliers that don't charge interest last; plan the

timing of purchases - if you purchase on the billing date, you get 30 days before your bill comes, and then another 30 days to pay

- f. **Examine your bank's terms and charges** - review bank service charges and interest rates for checking and savings accounts
- g. **Use credit cards - Consider this option carefully!** Credit cards allow 30 days of free credit if you pay on time; don't be late - credit card interest is high

VI. PAYMENTS - Accounts Payable

- a. **Use early payment discounts** - pay up promptly to take advantage of discounts if your cash flow allows
- b. **Pay when due** - bills with terms 30 days should be paid when due, not early; keep your cash for interest and your own cash flow
- c. **Talk to creditors** - if you have to pay late, be sure to talk to your creditors and honestly explain your situation and when payment will be made
- d. **Pay everyone "a little"** - if you have to budget payments, give each creditor something instead of paying one at a time in full; this keeps everyone happy and gives you more control, tell them how much you can pay and when, and pay on time - if you can't, be sure to call and explain
- e. **Pay bank loans and IRS first** - they can close you down!
- f. **Pay creditors you need the most or who can hurt you the most next** - future deliveries you need, who charges interest, or who will just drive you crazy

VII. BILLING

- a. **Reassess billing procedures**
 - i. Bill more often - bill when you deliver your product, bi-weekly, or at least monthly;
 - ii. Bill regularly - customers appreciate a regular billing so they can pay several small bills rather than one large one
 - iii. Consider deposits upfront for large contracts and a regular payment schedule thereafter
- b. **Check that terms are clearly printed** - Customers need to know when you expect them to pay in order to cooperate

VIII. CREDIT ACCOUNTS - Aggressively Collect Accounts Receivable

- a. **Offer discounts** - encourages early payment (ex: 2% 10 days); helps cash flow to receive payment sooner, but don't offer discounts that you can't afford
- b. **Charge interest** - customers will pay a bill with a service charge after 30 days before one without a service charge
- c. **Call and visit overdue accounts** - customers respect a business that collects aggressively
 - i. Call as soon as bill is overdue; ask for specific payment date and call immediately if not paid on time
 - ii. Keep a record of your correspondence with your customer
 - iii. Visit if necessary to collect
 - iv. Use certified mail
- d. **Use collection services** - small claims court and collection agencies can help you collect when all else fails. Don't pay a service to try to collect hopeless account.
- e. **Review credit granting criteria**
 - i. Be more selective with customers allowed to pay on credit
 - ii. Be a little stingier with how much credit you extend
 - iii. Consider credit cards as an alternative

IX. FIXED ASSETS

- a. **Never purchase fixed assets with working capital**
 - i. Do not pay long-term purchases with short-term cash; instead, apply for a loan
 - ii. Use short-term financing for short-term needs and long-term financing for long-term needs
- b. **Purchase only absolute musts** - Purchase only what you have to and what will be most cost-effective; this is no time to take risks
- c. **Sell assets you don't or rarely use** - get rid of equipment you don't need to provide some additional cash
- d. **Make better use of real estate** - review your space requirements; make better use of your space; consider sub-leasing
- e. **Consider leasing assets** -
 - i. Sometimes more cost-effective than buying
 - ii. A true lease is deductible in full as you make payments

- iii. Consider leasing assets that don't hold their value or will be obsolete at the end of a lease term

X. OTHER HINTS

- a. **Deposit cash collections regularly** - Deposit cash as soon as you receive it; it can take several days before it clears the bank so you can use it
- b. **Talk to your bank**
 - i. Build a professional relationship with your lender
 - ii. Communicate before you get into trouble
 - iii. Be honest
- c. **Don't wait too long before you ask for help** - you risk losing your options
- d. **Pay taxes on time**
 - i. Consider putting your payroll taxes (& Rooms & Meal taxes) into a savings account weekly until due
 - ii. Beware heavy duty penalties and interest - penalties and interest are wasted cash; you can borrow for less and pay on time
- e. **Don't use the IRS as a lending institution**
 - i. Interest rates too high
 - ii. Not a long-term lender
 - iii. Cannot trust the IRS's long-term cooperation
- f. **Don't pay loans off early** - unless you are sure you won't need the money late
 - i. It is difficult to re-borrow
 - ii. If you must pay early, watch for early payment penalties and first pay off loans that charge the highest rate of interest
- g. **Work together and keep a positive attitude** - Your competition can be one of your best resources to share purchases, learn from mistakes and help market your area as one people would like to visit and shop in