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7.5 Ways to Improve Cash Flow:

01. Cash is Not Profit.

Before we go any further, you have to remove from your head that cash is the same thing as profit. They are two different accounting terms, and sometimes have NOTHING to do with each other. Although we want profit to eventually turn into cash, there are times when you can have profit and no cash. Consider the example that you made just enough profit to make your loan payments. You would have made profit for the year, but after paying the bank, would have no cash.

02. Manage Receivables.

Few small businesses have a formal credit or collection policy. Often times just putting a policy in writing and making sure everyone in the organization is operating from it can drastically improve receivables collection. Too often receivables collection is a reaction to a cash shortage. Then somebody is on the phone trying to collect balances owed. Receivables management should be someone in the organization's job, and they should follow a specific plan to collect. For example, after 15 days late the customer receives a phone call or email. After 30 days, a letter, 45 days, a more forceful letter, etc. Every business is different, but make sure you have a process to determine to whom you are going to extend credit, and how much. Example, new customers can only have $5,000 in credit for the first 6 months, or prior to extension of credit, they need to provide three trade credit references.

03. Manage Suppliers.

Many suppliers have no penalty for late payment (e.g. interest on balances), so defer payments at least until the due date. Ask for extended terms if necessary. In many cases, your suppliers are businesses in the same situation, and having a predictable cash flow is preferable, even if it's slower. Determine back up suppliers in case a larger supplier wants to tighten the reigns and demands more aggressive payment terms. You may pay more with the alternative, but we're not managing profit here, only cash. Besides, you can increase your prices too!

04. Manage Inventory.

Many companies no longer have inventory, but for those that do, it can be the item that makes or breaks a company. The very first thing is to have a good system of tracking inventory. Do not be cheap with your software or its installation. It will pay for itself many times over. Take hard inventory counts regularly, and spot count high cost items more frequently. This discourages theft, and identifies holes quickly. Sell your old inventory NOW! You lost money on it, you're not getting it back, so you might as well have the cash to go buy new! Many times business fall into the trap of "if I don't have the product, I can't sell it", so they overstock. With today's just in time inventory and logistics solutions, there is no reason to do this! Remember, holding inventory only COSTS you, it doesn't make you money!

05. Manage Fixed Assets.

Match payment for fixed assets as closely as possible to the period you will use them. Again, this costs additional money for interest, but we're not concerned with profit, we're looking at cash. There are many non-bank alternatives such as leasing, and asset based lenders. Don't be afraid to pull cash out of equity in the equipment by refinancing loans. You can always pay the lender back early!

06. Manage Pricing.

Often overlooked is the use of variable pricing. Almost every business has some seasonality. Charge more when it's busy, and less when it's slow. Airlines are masters of this. The pricing you receive depends on how far in advance you purchase the ticket. Wait until the day of the flight, and you will pay a LOT more than if you had purchased six months earlier. In the same way, when your customers are hot and heavy, charge them a premium. Also consider giving customers an option to prepay prior to the rush to avoid the higher seasonal pricing.

07. Managing Debt.

I've always liked the phrase, "a banker is one who gives you an umbrella, but takes it away when it starts raining." The best time to renegotiate is when you don't need the cash. Increase your lines of credit and pressure for better terms (i.e. longer loan amortizations) when you are profitable. Ask for more than you need. Again, you can always pay them back early! Better to have more bullets than run out when you can't get any more. Make sure that your loans are synchronized with the assets that secure them. You don't want a loan for 5 years on your real estate, nor do you want your fixed assets tied up to use as working capital lines of credit.

7.5 (Not really a way to save, but...) Measure, Measure, Measure.

Establish Key Performance Indicators (KPI's) for your cash flow, measure them, and adjust. If you're not hitting your number, do something now! Don't wait until you have no choices. Look at your days receivable, days payable, days inventory, cash burn rate, etc. regularly and make sure that they are in line with your industry. If your competitor manages their cash flow better than you, then they have a competitive advantage.