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Grow Your Cash Stash by Managing Cash Flow

Aggressive cash flow management could ensure your business survives tough times.

by Carol Tice

In these tough economic times, cash is king. When you run out of cash, you're out of business. You can't control what's happening in the economy, but you can make sure your business survives by aggressively managing your cash flow.

There are three basic ways to increase your cash on hand, even if business is slow: You can collect what you're owed faster, arrange to pay your own bills more slowly and control expenses better. Our experts offer these tips for improving your cash flow:

Crack down on deadbeats. "Get your customers to start paying on time," says financial consultant Guy McPhail, president of Zdenek Financial Planning in Flemington, NJ. Know who your late-payers are and consider terminating the relationship if they can't pay on a more timely basis.

Start accepting credit cards if you don't already--you'll pay a fee but get the rest of the money immediately, McPhail says. If you invoice, make sure invoices go out on time, and offer discounts or other incentives for prompt payment. If you work on large projects, request partial or full payment upfront. Learn what competitors' payment terms are, and adopt the shortest terms in your industry.

Cut a payment deal. When it comes to your own business's bills, pay as slowly as your vendors will permit without penalty. Begin by asking vendors if they would extend you longer terms: say, 60 days instead of 30.

If your bill is due in 30 days, McPhail says, pay it on day 29, not day one. Even better, pay it on day 29 with a business credit card that gives you an additional 60 days to pay, effectively giving you 90-day terms.

Control expenses. At many companies, cash-flow problems are caused by overspending, says former bank officer Luigi Germano, who is now a business coach for SCORE in Portland, Ore. If you find yourself running short of cash, scrutinize expenses and start cutting back.

Germano advises only buying assets that will have a direct positive impact on sales. Review your bills for any office or store supplies you might be able to buy more cheaply.

If you sell products, trim your purchasing list and focus on your best-sellers.

"I've seen tons of companies where the inventory was out of whack completely," Germano says. "They either had no policy on how to buy inventory, weren't paying attention to inventory levels, or they were falling prey to salesmen pushing deals."

Cut your tax bill, if possible. Make sure you know all the new tax breaks for '09. If you own commercial property, get it reassessed--if it's lost value, your business may owe less property tax.

Cash flow as a crystal ball. Tracking your cash flow gives you a powerful business-management tool. Use your cash-flow information to set goals for the future and compare your progress month to month.

You can also use your cash-flow data to project what your cash on hand will be several months into the future, says Phil Holland, founder and chairman of the nonprofit MyOwnBusiness.org in Industry, Calif. If your cash balance is going down each month, you'll be able to forecast how long you've got before your bank account is bare.

"You could make a projection based on your business going down 10 percent or 25 percent," Holland says, "and those numbers will give you a clue in terms of what your future cash balances will be at the end of each month."

One cash-flow management trick from consultant McPhail: Set up a separate account for the money you pay yourself each month. If you have to borrow from it during the month to pay business bills, it'll alert you that there's a cash-flow problem.

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