SMALL BUSINESS REVIEW Resources for Successful Small Business Owners

YOUR MONEY:

Improving Your Cash Flow

Tips to encourage customers to start paying on time.

August 2007, By Guy McPhail

In my last column I introduced the strategy of budgeting for profit by starting a profits account for your business that should be funded monthly. As I noted, the key to making sure that planning for profits pays off for a small business often lies in the owner's ability to become an expert in cash flow management.

Cash flow is essentially the movement of money in and out of your business. Cash inflow generally comes for the sale of goods or services to your customers (or patients, if you're a doctor). Cash outflow is generally the result of paying the operating expenses of a business, including salaries.

Track Your Cash Flow
The first step to becoming an expert in cash flow management is to start tracking it regularly. By using cash projections over time you should be able to determine the amount of cash that will be available during a designated time. To do this you need to produce monthly cash flow statements.

If you use bookkeeping software such as QuickBooks, an accounts payable report that tallies your entries for bills will show your cash outflow requirements. Likewise, projected cash inflow can be seen from an accounts receivable report that tallies your customer invoice entries for which you await payment.

Your cash flow reports can also benefit your business in other ways. For example, if you need a working capital loan or a capital improvement loan your cash flow statements can be used as supporting evidence to show the banker how you intend to pay the loan back and to demonstrate that you have the means to do so.

One typical cash flow problem I've seen show up in the Accounts Receivable Aging Summary reports of small businesses is the issue of late paying customers. Payment for your goods and services is the key source of income for your business. Anything that delays getting that money into your company's bank account is a drag on your cash flow. If you have this problem at your business, you don't have to live with it.

Tips For Improving Your Cash Inflow From Late Paying Customers
Here are five tips for eliminating those consistently past due entries you find in your accounts receivables report.

1. **Make sure you send your invoices on time, every time.**

   Sometimes it's not the customers making cash flow problems for a business, it's the business itself. You benefit when you have a vendor who is lazy in billing you promptly. The longer he lets you keep your cash in your bank account the more interest you earn. However, each time you are late in invoicing your customers you're the one who is losing out because they pay you later than you had planned or needed.

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2. **Take deposits or retainers when orders are taken.**

   I find that quite a few small business owners are in a position to take a down payment from clients but they do not because doing so just hadn't occurred to them. How much is enough but not too much? Fifteen percent? Twenty-five percent? Fifty percent? If you have not done this before you may want to "test the waters" with various new customers to learn what price points are acceptable for your business.

3. **Have them pay by credit card immediately.**

   While retail shopkeepers accept credit cards as a matter of course, small businesses that don't serve "store traffic" tend to do without such a payment facility. If you don't run a retail business the cost of establishing a credit card payment facility may be beneficial if it gives you the potential to increase the speed by which clients pay you.

   Run a cost/benefit analysis with your financial planner. Make an approximate determination of how much of your receivables you would need to have clients pay by credit card to make adding this payment facility worth your while. Then, contact clients and tell them you're taking an informal poll to determine if they would be interested in paying by credit card. Remind them that they could earn frequent flyer miles or other credit card perks for their businesses or themselves.

4. **Offer discounts to customers who pay their bills quickly.**

   Everybody recognizes that store discounts encourage shoppers to "buy now". The offer of a discount may work with some of your customers, too. If you have a customer who has been negligent in paying you on time, consider offering a discount of some sort if he pays you promptly and consistently. Here's one way to consider structuring your offer: Say you have a customer whom you bill monthly. You could tell her that for every three months that she pays on time consecutively you will discount her next invoice by X%.

5. **Make sure you know who your late paying customers are and if they persist in their lateness have them go on cash on delivery only.**

   For those late paying customers who didn't accept your previous offers (to provide you with a deposit first, to pay by credit card or take you up on a bid to pay on time and earn a discounted invoice three times a year), you have one option left. Inform them that you will put them on a cash-on-delivery billing basis.

   If they do not accept any of these proposals, you need to reassess whether you can afford to continue doing business with them. If a client of mine had such an experience with a customer of his, I'd question whether his customer's business was likely to remain viable for much longer and warn my client to be careful when extending credit to this customer.

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