

How to Improve Cash Flow for Your Business



Your small business is like an irrigated farm that's nourished by cash rather than water. And if the flow gets blocked or diverted—or worst of all, dries up—disaster is sure to follow.

You need to take action fast, or you might find yourself praying for rain.

Cash flow struggles are common, but they don't have to be inevitable.

Understanding how to improve cash flow gives you an edge on the competition; you'll be better prepared to take action when it's time to face a challenge—or seize an opportunity to innovate, grow, or invest.

Knowing How to Improve Cash Flow is Essential

While small businesses face a number of challenges in today's complex global economy, cash flow problems remain the number one reason small businesses fail.

Even with growing sales and profitability, it can be all too easy to slip into

negative cash flow if you're consistently dealing with payables (i.e., debts) whose due dates arrive before receivables (e.g., customer payments for sales made but not collected) hit your bank account.

Getting caught in a cash crunch like this can leave small business owners scrambling to find the money they need to meet operating expenses, pay outstanding invoices, pay off creditors, or make payroll. The problem then snowballs as:

- Late payments create ill will between your company and its suppliers, leading to unfavorable payment terms and pricing. In extreme cases, suppliers may demand cash on the barrel and refuse to extend credit at all.
- Delinquent business loan payments damage your creditworthiness with key creditors, and may even prevent you from accessing funds you need to invest in new equipment or product development.
- Employees look for greener pastures where their paychecks aren't quite so precarious, and spread the word to others, making it difficult to attract top talent.

Approximately 82% of small businesses that fail are forced to close their doors due to poorly managed cash flow. But yours doesn't have to be one of them, provided you understand the importance of maintaining healthy liquidity and take advantage of the tools and practices that can help you do so.

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Best Practices for Improving Cash Flow

A proactive approach to cash flow management has a powerful effect on a small business' performance, growth, and bottom line.

Every business is unique, but every small business can benefit from following a few simple best practices to maintain positive cash flow.

1. Invest in Procure-to-Pay (P2P) Software

Managing your business cash flow effectively is next to impossible if you don't have a clear and complete picture of your company's spend.

Investing in a comprehensive, cloud-based procure-to-pay solution like PLANERGY supports cash flow management by:

- Collecting all spend data on a single, centralized platform with secure, mobile-friendly access.
- Creating powerful immediate savings and long-term value through process automation that streamlines and optimizes invoice processing (including three-way matching), automatic payments, etc.
- Offering full integration with accounting software and supplier systems to make it easier to plan supplier payments; take advantage of early payment discounts to secure savings, or maintain short-term working capital by paying in full at the due date.

Providing modules dedicated to contract management, inventory management, and supplier management help you make fully informed spend decisions.

- Implementing guided buying, punch-out catalogs, and internal process controls to reduce or eliminate maverick spend and invoice fraud.
- Incorporating powerful analytics to identify spend patterns, forecast expenses more effectively, and make more strategic sourcing and investment decisions.

2. Incentivize Customers to Pay on Time

Small business owners spend a lot of time worrying about paying the bills. Sadly, few of their clients return the favor.

A 2016 study found the average small business in the U.S. has about 84k in unpaid invoices; 81% of those invoices are more than 30 days past due, and the total amount outstanding across nearly 30 million small businesses comes to a rather shocking \$825 billion.

Consequently, finding ways to encourage your customers to settle up can help immensely when you're trying to improve your cash flow.

A few ways you can do so include:

- Sending invoices out immediately to encourage prompt payment.
- Offering discounts for early payment. You can also offer discounts for prepayment (e.g., signing up for 12 months at a reduced price vs. paying a subscription fee each month).
- Developing and enforcing a firm invoicing policy, including a clear and upfront explanation of late fees. Your policy should also include:
 - Payment due dates.
 - The currencies you accept.
 - The forms of payment you accept, along with any additional charges for each payment option (e.g., a service charge for debit card payments).
- Send automatic reminders a few days before the invoice due date, the day the invoice is actually due, and a few days after. Escalate reminders in accordance with your late payment policy to ensure your customers know they'll be paying a premium if they make a late payment.

3. Leverage Positive Supplier Relationships

Investing in strong and strategic supplier relationships does more than create goodwill. It also affords you the opportunity to renegotiate for more favorable payment terms.

Ask for better pricing or a discount in exchange for early payment, or secure longer payment terms that let you hold onto working capital a bit longer without worrying about penalties or service fees.

Investing in strategic supplier relationship management today can yield substantial dividends down the road.

4. Take Advantage of Economies of Scale

Birds of a feather protect their positive cash flow together.

Teaming up with other small businesses who buy the goods and services you need in bulk can strengthen your position when negotiating with suppliers. Pool your resources, spend less frequently, and spend less money when you buy.

5. Consider Debt Factoring

If you're struggling with unpaid invoices and need cash quickly, you can sell unpaid invoices to a factoring company for cash.

The factoring company charges you a modest fee for the convenience, but when it comes to cash flow, a bird in the hand can be worth much more than two in the bush.

6. Reduce Your Operating Expenses

The cost of doing business can quickly drain your cash reserves. Make sure you're getting the best value for every dollar you spend by ensuring your company's operations are as efficient and cost-effective as possible.

- **Automating business processes.** Your P2P solution will prove invaluable here, as automating high-volume, low-value tasks cuts costs by improving accuracy and speed while eliminating both human error and the need for human oversight.
- **Investing in more efficient and cost-effective equipment.** They might cost a bit more upfront, but investing in the best possible equipment your budget will allow can quickly pay you back with higher efficiency rates, which can lower payroll expenses and increase production.
- **Practice effective inventory management.** Use your spend data to optimize demand forecasting to ensure you're ordering enough to cover your needs, but not so much that you're locking up precious cash in unsold inventory. And when times are tough, don't be afraid to free up cash by liquidating old inventory you can't sell any other way.
- **Consider leasing rather than buying.** Startups and small businesses without access to the working capital or business loans necessary to buy equipment can still get what they need by leasing. Losing the ability to record the equipment as a fixed asset is balanced by lower monthly payments that keep more cash free when you need it most.
- **Pare down unnecessary subscriptions.** If you're paying monthly fees for dozens of software-as-a-service (SaaS) apps to handle your social media, IT support, accounting, etc., look for ways to consolidate with multi-purpose solutions. You'll eliminate costly redundancies and free up

cash.

- **Switch to a high-yield savings account.** Some banks offer accounts with interest rates 5, 10, or even 25 times higher than the national average, making it easier to grow the money you save. Online banks offer the best rates, and you may need to open an account at a different bank than the one where you have your checking and investment accounts (for example), but electronic transfers make this largely academic.

7. Pay More Strategically

The way you choose to pay your bills can constrict or loosen cash flow. Consider:

- **Paying electronically.** Keep more cash free by paying securely and swiftly on the actual due date.
- **Using a business credit card.** Depending on your lender, these cards can offer extended grace periods (keeping your cash free longer). Some might even offer cash back with every purchase.
- **Consider leasing rather than buying.** Startups and small businesses without access to the working capital or business loans necessary to buy equipment can still get what they need by leasing. Losing the ability to record the equipment as a fixed asset is balanced by lower monthly payments that keep more cash free when you need it most.
- **Leverage your spend data.** Analytics can reveal incredibly useful insights you can use to protect and improve cash flow. If your cash flow statements indicate August is an historically slow month, but September usually brings record sales, pay a bill that's due on September 1st on the actual due date so you can record positive cash flow for May.

8. Increase Your Prices

It might sound daunting, but increasing your pricing isn't necessarily going to kill existing sales or drive away new customers.

Remember, charging too little can cost you plenty, too.

If you're considering a price increase, ask:

- How much does it cost in materials, manpower, and other resources to produce our goods and services?

- Is my business being fairly compensated for the time and resources that go into the goods and services we offer?
- How does the price I charge affect the way my goods and services are seen? Am I selling a premium experience at a bargain-basement price?
- How do our prices compare to those charged by competitors?
- Have our operating, materials, inventory, or equipment costs increased recently?

Making sales is important, but so is making enough profit to protect business continuity and encourage growth and innovation.

Maintain a Positive Cash Flow for Performance and Profitability

Cash flow problems don't have to be a fact of life.

Protect your company's business credit score, reputation, and bottom line by investing in data management and analysis tools and developing effective policies for pricing, vendor management, and optimizing both accounts receivable and accounts payable.

With an active approach, you can manage cash inflows and cash outflows more easily to make sure you meet your obligations, save money, have the working capital you need for innovation and emergencies, and have the freedom to focus on building a successful business.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
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- Learn about us, and our long history of helping companies just like yours.

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