

The Top 10 Ways to Increase Your Cash Flow

Lack of cash flow - the Number One killer of small businesses! Here are some great ways to increase cash flow in your business. Put one or two ideas into practice and watch your cash grow!

1. Remove the roadblock.

Perhaps your customer's account is unpaid because their largest customer isn't paying or they've just lost a big account. Offer your customer the opportunity to make installment payments. You can arrange automatic payments from their bank account. This ensures you receive the payment monthly as agreed on.

2. Help your customer and in turn, help yourself.

Suppose your customer's normal supplier has equipment problems and won't be able to meet the deadline for a very important job. Connect your customer with someone you know who could help them out and you'll be helping your customer, your business contact and yourself! As their cash flow grows, they have more money to pay you!

3. Be persistent.

When you contact your customer ask when you can expect payment. Be persistent in calling your customer for payment while remaining pleasant. It will pay off.

4. Strengthen your credit policy.

Add a condition that an account at 60 days past due, is authorized by the customer to be charged automatically to a credit card the customer provided when opening their account. This eliminates past due accounts and gets the money in your account.

5. Monitor your customer's credit health.

Compare the customer's Days Sales Outstanding (total amount owed divided by the average daily sales. Assuming the customer owes \$15,000, with average daily sales of \$420, the Days Sales Outstanding would be 35.7 days ($\$15,000 / \$420 = 35.7$ days). This means, with a credit policy of net 30 days, some portion of their account is past due. Having an indicator of an account's status allows you to be proactive in collecting accounts on time.

6. Simplify billing.

Mortgage companies, insurance companies, private schools and health clubs have two things in common - a monthly bill to their customers and the option for the customer to pay the bill by automatic payment from their bank account. You can offer this service to your customers, too. It typically costs \$2 to \$4 per account to separately bill and collect on a monthly basis. The typical per transaction cost for automatic payments is only \$0.30 to \$0.50. Benefits are:

- a) a cost reduction by at least half, b) a cash flow you can count on
- c) time freed up from billing and collection for acquiring more customers, revenue, and profit.

7. Avoid waiting for checks to come in the mail.

Take the customer bank account information or credit card number over the phone instead of waiting for the promised check to come by mail. You can offer automated payments from your customer's bank account to pay their account in full or to make installment payments. Once the payment is authorized, you control when you're paid, rather than waiting for the check in the mail.

8. Identify debit cards to eliminate the credit card fee.

Credit card transactions have a fee of 1.5% to 2% of the ticket amount plus a per transaction fee of around \$0.25. A sale of \$70.00 would incur \$1.65 in charges ($\$70 \times 2\% = \$1.40 + \0.25 transaction fee = \$1.65). In contrast, debit cards incur at most \$0.50 per transaction. On this sale, you'd save \$1.15, more than two times the total fees charged on those transactions identified at the point-of-sale as debit, not credit cards.

9. Get connected.

If you conduct business on the road, wireless technology makes having a credit card terminal with you a real possibility. You can process those swipe transactions at the point-of-sale, where the lowest rate applies (saving as much as 0.5%), keeping more cash in your account.

10. Eliminate bounced check headaches.

Wouldn't it be a relief if you didn't have to make calls to collect bounced checks? Most bounced checks are a result of a math or timing error on the customer's part. You can avoid losing a good customer to embarrassment by collecting bounced checks electronically. With a check recovery service, it is collected electronically through the U.S. banking system. You get paid the face value of the check upon collection. The customer who wrote the bounced check is charged a reasonable fee, set by state laws. And, best of all, no collection phone calls to your customers. Spend your time re-investing your improved cash flow to increase your business.

About the Submitter

This piece was originally submitted by Cheryl E. Cook, B.B.A., M.B.A., University of Michigan; 26 years experience in financial management, Business Owner