

Ask a VR Intermediary



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How Do I Maintain a Strong Cash Flow for my Business?

Successful cash management requires you to regulate the money that's flowing in and out of your business. Keeping sudden spikes or drops at bay is the essence of maintaining smooth cash flow. The more predictable and consistent it is, the easier it is for you to plan and budget for future growth.

Follow these tips to increase your cash flow:

Keep an Eye on Your Books

Cash flow problems creep up on you when you simply give your books a cursory glance. Review your finances at least monthly to make sure they're in shape. Keep a running monthly cash flow statement that recounts the most recent 6 months of results, and projects surpluses and deficits for the next six months.

Speed Up Your Receivables

Slow paying customers put added stress on your cash flow. Look for ways to get paid faster. Make sure your bills are sent out in a timely manner and are accurate and easy to read. Develop and maintain an effective collections system to avoid having outstanding invoices become overdue. Encourage early payments through discounts and other incentives.

Manage Your Payables

Along the same vein, don't pay your bills any earlier than is necessary. Take the maximum time allotted to pay suppliers - think of these terms as an interest-free, short-term loan. One exception: if your suppliers offer you a discount for paying early, take them up on it. A 2% discount on a 30-day invoice is equal to a 24% annual return if the money were invested.

Broaden and Balance Your Client Base

Relying on just a few clients makes you vulnerable to severe fluctuations in cash flow if one or more of those clients reduce their spending. Similarly, if you regularly work on a project-by-project basis, look for ways to convert some clients to a retainer relationship. This way, they pay you a set amount of money per month for certain services. This might reduce your margin, but can make cash flow more predictable.

Get the Best Price

It may seem obvious, but don't pay more than you have to for anything. Be price conscious for commodity products such as office supplies. Look for discounts that come with certain credit cards or association memberships. Review insurance policies, phone service and other regular expenses to make sure you're getting the best deal possible.

Keep Inventory in Control

Inventory can tie up significant amounts of cash. Regularly gauge your inventory turns to make sure that they are within the industry norms. Avoid buying more than you need - even when suppliers lure you with discounts. Periodically check for old or outdated stock and move it out to improve your liquidity.

Check Your Pricing

Your prices must keep pace with rising costs, augmenting them if necessary. Also, regularly check your competitors' pricing - if they're charging higher prices, you should as well.

Look into Leasing

Leasing costs more in the long run than purchasing, but can still be prudent from a cash flow perspective. Monthly-lease payments are a predictable business expense - they can keep you from having to make a single, lump-sum expenditure for high-ticket items like computers and office equipment.