Sustaining Your Business in Challenging Times
~ Controlling Your Cash Flow ~

I. RE-EXAMINE YOUR BUSINESS
a. Analyze
   i. What business are you in?
   ii. What products or services do you offer?
   iii. What do you do best?
   iv. What should you focus on?
   v. Look at your business from your customers view

b. Profit margins per segment, department or product
   i. Check your margins for each product separately; look for products that aren’t profitable and rob profits from others
   ii. Get rid of unprofitable segments, departments or products; clean house - they take time and money away from your business and affect your customers’ view of your business.
   iii. Review employee structure - consider cutting hours or jobs; hard to do, but sometimes necessary for your business’ survival
   iv. Use roving CFO’s and temporary help as an alternative to full-time or part-time help you would have to pay regularly even during slow times

II. CASH FLOW ANALYSIS
a. Prepare a cash flow projection - monthly revenue and expenses for one year; use it as a budget and cash flow analysis tool
b. Compare estimates vs. actual at least monthly - compare revenues and expenses at least once a month. Look for deviations and ask “why?”; determine explanations
   c. Symptoms vs. causes - cash shortage is a symptom - you need to find what is causing the shortfall: could be waste, overspending, reduced sales, margins off, unexpected bills, etc.

III. MARKETING
a. Reassess your market - markets are changing, are you?
b. Concentrate on what you do best - don’t try to be everything to everyone - it wears you out and confuses your customers’ view of your business
   c. Be customer sensitive - are you supplying your customers needs or your own?

IV. PRICING
a. Investigate customer sensitivity - quality, availability, service, etc. all affect why customers buy; price is not always most important; price also affects your customers’ view of your product or service; pricing too low may make your product appear to be of lesser quality
   b. Competition - examine your competition closely; do they have faster service or better quality?
c. **Reduce production costs** - reducing production and overhead costs helps you charge less and still make your margins
   i. Examine expenses carefully - look for costs you can reduce, shop around for insurance, employee benefits, supplies (waste), etc.
   ii. Examine vendors - analyze price, credit terms and service
   iii. Check margins - be sure your sales price covers your costs

V. **PURCHASING** - Buy smarter
   a. **Use cash discounts** - some businesses offer substantial discounts if you pay cash when you purchase; *do this only if your cash flow allows*; if discounts require minimum purchases, consider sharing orders with other businesses
   b. **Purchase only as needed** - avoid purchasing huge amounts; large bills follow large purchases and tie up cash
   c. **Avoid building unnecessary inventory** - it costs money in storage charges and lost interest to keep excessive goods on hand; ties up cash while you wait to sell
   d. **Remember competitive market** - look again at your suppliers: Are they competitively priced? Do they offer discounts? Analyze their credit policies; the “old” suppliers you’ve always had may not be the best for your business
   e. **Use trade credit** - don’t borrow money when you can get it free; 30 days to pay is 30 days of free credit; pay suppliers that don’t charge interest last; plan the timing of purchases - if you purchase on the billing date, you get 30 days before your bill comes, and then another 30 days to pay
   f. **Examine your bank’s terms and charges** - review bank service charges and interest rates for checking and savings accounts
   g. **Use credit cards** - *Consider this option carefully!* Credit cards allow 30 days of free credit if you pay on time; don’t be late - credit card interest is high

VI. **PAYMENTS** - Accounts Payable
   a. **Use early payment discounts** - pay up promptly to take advantage of discounts if your cash flow allows
   b. **Pay when due** - bills with terms 30 days should be paid when due, not early; keep your cash for interest and your own cash flow
   c. **Talk to creditors** - if you have to pay late, be sure to talk to your creditors and honestly explain your situation and when payment will be made
   d. **Pay everyone “a little”** - if you have to budget payments, give each creditor something instead of paying one at a time in full; this keeps everyone happy and gives you more control, tell them how much you can pay and when, and pay on time - if you can’t, be sure to call and explain
   e. **Pay bank loans and IRS first** - they can close you down!
   f. **Pay creditors you need the most or who can hurt you the most next** - future deliveries you need, who charges interest, or who will just drive you crazy

VII. **BILLING**
   a. **Reassess billing procedures**
      i. **Bill more often** - bill when you deliver your product, bi-weekly, or at least monthly;
ii. Bill regularly - customers appreciate a regular billing so they can pay several small bills rather than one large one
iii. Consider deposits upfront for large contracts and a regular payment schedule thereafter

b. Check that terms are clearly printed - Customers need to know when you expect them to pay in order to cooperate

VIII. CREDIT ACCOUNTS - Aggressively Collect Accounts Receivable
a. Offer discounts - encourages early payment (ex: 2% 10 days); helps cash flow to receive payment sooner, but don’t offer discounts that you can’t afford
b. Charge interest - customers will pay a bill with a service charge after 30 days before one without a service charge
c. Call and visit overdue accounts - customers respect a business that collects aggressively
   i. Call as soon as bill is overdue; ask for specific payment date and call immediately if not paid on time
   ii. Keep a record of your correspondence with your customer
   iii. Visit if necessary to collect
   iv. Use certified mail
d. Use collection services - small claims court and collection agencies can help you collect when all else fails. Don’t pay a service to try to collect hopeless account.
e. Review credit granting criteria
   i. Be more selective with customers allowed to pay on credit
   ii. Be a little stingier with how much credit you extend
   iii. Consider credit cards as an alternative

IX. FIXED ASSETS
a. Never purchase fixed assets with working capital
   i. Do not pay long-term purchases with short-term cash; instead, apply for a loan
   ii. Use short-term financing for short-term needs and long-term financing for long-term needs
b. Purchase only absolute musts - Purchase only what you have to and what will be most cost-effective; this is no time to take risks
c. Sell assets you don’t or rarely use - get rid of equipment you don’t need to provide some additional cash
d. Make better use of real estate - review your space requirements; make better use of your space; consider sub-leasing
e. Consider leasing assets -
   i. Sometimes more cost-effective than buying
   ii. A true lease is deductible in full as you make payments
   iii. Consider leasing assets that don’t hold their value or will be obsolete at the end of a lease term
X. OTHER HINTS
   a. Deposit cash collections regularly - Deposit cash as soon as you receive it; it can take several days before it clears the bank so you can use it
   b. Talk to your bank
      i. Build a professional relationship with your lender
      ii. Communicate before you get into trouble
      iii. Be honest
   c. Don’t wait too long before you ask for help - you risk losing your options
   d. Pay taxes on time
      i. Consider putting your payroll taxes (& Rooms & Meal taxes) into a savings account weekly until due
      ii. Beware heavy duty penalties and interest - penalties and interest are wasted cash; you can borrow for less and pay on time
   e. Don’t use the IRS as a lending institution
      i. Interest rates too high
      ii. Not a long-term lender
      iii. Cannot trust the IRS’s long-term cooperation
   f. Don’t pay loans off early - unless you are sure you won’t need the money late
      i. It is difficult to re-borrow
      ii. If you must pay early, watch for early payment penalties and first pay off loans that charge the highest rate of interest
   g. Work together and keep a positive attitude - Your competition can be one of your best resources to share purchases, learn from mistakes and help market your area as one people would like to visit and shop in