

Take the Crunch Out of Your Cash Flow

04/23/07

I'm expecting a cash flow crunch for the next month. Any suggestions? I'm hoping it will be short term, but need to be prepared in case it lasts longer than expected.

Managing your way through a cash flow crunch is important. You have to look at all three sides of the puzzle – expenses, income and reserves. And plan as if more than one thing might go wrong, rather than counting on a best case scenario and then being caught short if everything doesn't go according to plan.

Let's start with immediate actions you can take. Create a spreadsheet of all of your payables, prioritizing payments. Be careful with credit cards. These days many of them will skyrocket your interest rate if you miss a payment, but they will allow you to make a small minimum payment to stay current. Tell vendors you work with regularly that you need to briefly delay payment, and be specific about how much time you need. Send partial payments, in order to show good faith. Rotate who you pay, and who you hold off on. Take as long as you're allowed to take, without jeopardizing your relationships. And no matter what you do, keep communicating with your vendors.

Consider involving your employees. You may be concerned that if you lay off

employees, you won't be able to get them back again in the future. Instead, you might want to consider scaling back hours. Go to a 30 hour work week temporarily, to keep everyone on board. You can encourage people to take time off for vacations, but keep in mind that won't help cash flow, so long as they have paid vacation time available. If you have employees who are less than great performers, now may be the time to let them go. Think of it as creating space, which you can fill with better qualified people, when things turn back up.

Once the crunch is over, implement options to help in the future. Approach vendors for better terms. Ask for discounts for paying early. Approach your landlord about reducing your rent. Cut out subscriptions that aren't essential. Scale back office supplies and shop vendors for better prices. Periodically check for expenses that automatically charge each month to your credit cards, cell and regular telephone statements, and other recurring bills. There could be hundreds of dollars in charges you can eliminate.

When you get ready to upgrade any office furnishings, donate old equipment and furniture, and document it, so you can take a tax write off. Make one time payments to term out leases, eliminating cash flow drains later on. Terminate leases that you

don't need, if the cancellation fees are less than the leases. Consider the need for a line of credit to manage your way through cash flow crunches. Just be certain you'll be able to pay off the line, once things pick up.

On the income side, short term, call every outstanding bill and ask for payment. Demand that clients make progress payments on time, or suspend work until they do and focus on other customers who are paying you. Consider giving a bonus, for early payment; instead of giving a discount, ship an extra, small cost item as a thank you. Look at the work you have on hand and prioritize the most profitable, fastest paying jobs. Call good customers and ask if they need anything, then ask for a partial payment upfront.

Longer term, establish strict credit policies. Require upfront payments, interest for anything more than 15 – 30 days outstanding, and credit cards for any accounts that go over 30 days past due. Do a profile on every customer, including a credit check on any new customer making a significant purchase. Watch your outstanding balances weekly and make it policy for someone in your organization to jump on anything that starts to go late. If you work on a client's job for a long time, implement progress payments, so that you get money flowing in all along, rather than waiting until the end to get paid. Keep final payments,



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pending client acceptance, to 10% or less.

Finally, build up reserves so that you aren't caught short. Get a loan from your bank to term out any high interest rate debt, including credit cards. Don't kill your cash flow trying to pay off everything at once. Each month, set aside 5% - 10% of income, into a savings account. Don't stop until you have 2-3 months of cash flow on hand. This will ease the strain when you hit low periods. And using cash reserves is usually the cheapest form of financing.

Looking for a good book? Try *Understanding Cash Flow (Finance Fundamentals for Non Financial Managers Series)* by Franklin J. Plewa, Jr. and George T. Friedlob.

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