



# Increase Your Cash Flow Now

The price of oil seems to be dropping and the housing market has just received a reprieve from Congress last week with a 5 billion dollar new resolution trust. So how will this affect your business and pocketbook? If off shore drilling is approved and Bush pushes for it, oil will drop again after the September pre-election oil price reduction. This will move oil into a more affordable market play and hopefully consumer spending will match with greater confidence. But then again, the election can make the market go either way. Whoever gets into the White House, will have their hands full and no relief will be in sight any time soon. So, what is a business owner to do? PLAN NOW to ensure a positive outcome, regardless of the external and extraneous factors.

The source of your business planning is dependent on the most important aspect: **cash flow**. We recommend that you pay very strict attention to your cash flow, in order to monitor the potential success or failure of your business in this uncertain economy. A statement of cash flow starts with the bottom of your profit and loss statement – the line that shows your net income. Several adjustments are then made to that number. I'm not going to go into the details of the cash flow statement – a good accounting program that does a P&L and a balance sheet will also calculate this statement for you. As we stated last month, run a trial balance of your business to

determine an initial picture of how your business is currently running, and then look to see how your cash flow is affecting your ability to stay ahead of the game.

Many small businesses are ecstatic to land a big contract from a major company, but they must carry the cost of labor, material and current expenses of their operation with only the promise of the payment upon their successful completion of the project. They might show a profit on an accrual basis, but from a cash flow standpoint, they don't. If the big fish decides to pay late or not at all, it can be a devastating blow to the smaller entrepreneur. If you are negotiating with a sizeable contract, make sure that you get enough money up front, or incremental payments, in order to cover your planned initial expenses.

Know your business. If you have been too busy running your business and increasing sales, take a moment to analyze some of your basic fundamental business expenses. "What costs does it take to produce what you are trying to bring to market?" If you have not reviewed a cost analysis vs. your cash flow recently, then you are probably short the 40% increase that we have had in the last year with the rise in oil and finance costs. Re-analyze your expenses and ensure that the contracts and your costs to clients are in line with the expense increases that our economy has been hit with. Track your

gross profit margin (total sales divided by gross profit). Being able to track a declining margin can give you a heads-up that you must adjust your prices or your costs.

Accounts receivables can either make or break you in this next economy. If your accounts receivables are on the rise, it means that some of the customers that you are selling to are beginning to falter. As I have stated last month, tighten up your credit lines, sell your accounts receivables older than 90 days, and hire someone for or outsource the collections of any AR over 30 days old. You have to make a decision. If you spend money in litigation, you probably will never get paid. If you go after them now you'll be the first kid on the block to collect before they default to the bank. You worked hard to get the contract; your people are dependent upon you to collect the money to keep the cash flow and company running. Sometimes it is a public relations nightmare. It is best to outsource your collections to remove the stigma of you as the bad guy. Or you just have to accept the loss and move on. Tough call.

Monitor your accounts payable. If your own accounts payable are falling short and you are becoming a slow pay, then you had better monitor all aspects of your cash flow, or it might be a sign that your own company's financial strength is waning.

## How to increase your cash flow?

1. Invoice your clients without delay. Many of us are so busy that we leave the invoicing of our clients to the last minute when our taxes are due. Try to invoice in advance and give your clients an incentive to pay in advance.
2. Reward clients who pay early. Give your clients a 2% discount if they pay within 10 days of receipt of their invoice.
3. Stay away from slow pay or no pay clients. Run credit checks on all new clients over a certain contract amount. If they have bad credit, you will be their next victim. Even though your sales person wants the sale bad enough, and you want the business, you are better off moving onto the better paying client.
4. Barter instead of demanding cash. Get an initial deposit to ensure that your expenses are covered then if you are in need of their products or services, barter with them to secure your payment and reduce your costs as to the service or products that you might need.
5. Tighten your inventory. Go to a short term inventory count. Sell any excess inventory now to raise cash flow and tighten new purchases on a needs basis.
6. Tighten up your outstanding loans. While your cash flow is good, consolidate all of your loans and reduce your costs to one monthly payment. Get rid of your credit card debt which is costing you 18 to 24% per month. Then secure a line of credit for your possible cash flow needs in a tough economy.

Your future and your company's cash flow will determine who is standing at the end of this strange economy. If you want to finish the race well, make it happen now, don't delay.

If you want assistance in trying to implement any of these programs, call us for a free consultation at 899-7400.

