A Practical Guide to Improving Your Business's Cash Flow

Businesses grow and change over time, but they all need cash flow to operate.

Business owners can't keep their doors open when the money isn't coming in, so when that flow slows or stops, they must find ways to turn things around and get funds moving again. Whether you're just starting out or looking to grow an established business, paying close attention to your cash flow is one of the essentials of a thriving, successful business. Following are tips to help you get the most out of your business and avoid the troubles that arise when income slows down.

Making Decisions on Older Equipment

Old but functional machinery is always hard to get rid of. It still works, it still gets the job done well enough, and it's been paid off. But it may also be keeping the business from making more money. The adage of "you need to spend money to make money" is

New equipment can pay for itself and even be profitable

never truer than when it comes to equipment. You may not want to purchase new equipment because it means spending, and that's something you're trying to avoid. But can you justify keeping that old unit hanging around?

Making a big equipment purchase is never an easy decision to make, but sometimes there's a trade-off. Older equipment may reach a stage in which there are more repairs than not, plus it's slower than modern machinery and replacement parts are harder to come by. Compounding the issue is the fact that equipment manufacturers don't support their products after a certain amount of upgrade cycles. This means that when you still own a unit after the upgrade cycles are exhausted, you'll pay an arm and a leg to get a technician out when something breaks. A similar consideration goes for the software that operates the machine. The software may not run on newer computers due to its proprietary nature or security features. If the hard drive crashes, you may find yourself shelling out more money to get another copy of the software, provided it's still available. If any or all of these conditions are ongoing, it's time to upgrade the equipment. Otherwise, you're running the risk of losing more than just the means to operate the machine; you're losing valuable run time to produce a product that needs to get to the market.

New equipment can pay for itself and even be profitable when done right. Old machines still have a value to smaller operations, and their sale helps put money toward the new gear. Let someone else take on the risk of an older machine while you take your business into a new era. Never worry about selling an older machine, either. There is always someone willing to buy older equipment because they don't have the budget for a new machine, or the machine fits their particular needs. And lowering the overall amount for financing a new machine is an immediate return. You get more room to realize profit with lower repayments, and the faster machine turns out more product in a shorter timeframe. This gets more product to your customer and leaves more time in the day to put the machine to other uses.

Upgrade Old Technology

A similar line of thinking goes towards the technical equipment in your operation. If all of your computers are on an intranet, or not connected to the outside world, you have little to worry about in terms of security. Keep running that Windows XP machine until the hardware gives out — just make sure there's a backup available. But if you have computers that access the internet, you automatically have a security risk.

A computer connected to the internet sends and receives tons of information. It's broadcasting its existence to the world and can be found by anyone who knows how to look. This isn't a problem if your computers run the latest operating systems. If you're running anything older than Windows 7 or older versions of iOS, you're putting your valuable information at risk. Microsoft stopped providing security updates for XP in 2014 and will eventually cease support for the subsequent operating systems down the road. Apple uses a similar approach to providing support for its operating systems.

If a hacker gets into your computer and steals your data, you're out more than the data alone. Now you have to engage in a cleanup operation to find out what got stolen and how it impacts you and your customers. You could even expose your clients' financial data to risk, leading to customers losing trust in your operation and taking their business elsewhere. Ask yourself if you can afford to lose that money. This is just one aspect of operating older computers. You also need to consider the other side of their financial impact.

When you run old computers, you run slowly. Older technology isn't known for its speed, and a computer slows down over time for various reasons. When you lose time waiting for a program to boot or perform an operation, you lose money. It's time that could be spent working to generate a profit, but instead you waste time and money because you're waiting for a program to run. Combine the security risks of an older operating system and time lost to waiting for a program to run, and you'll find it adds up quickly.

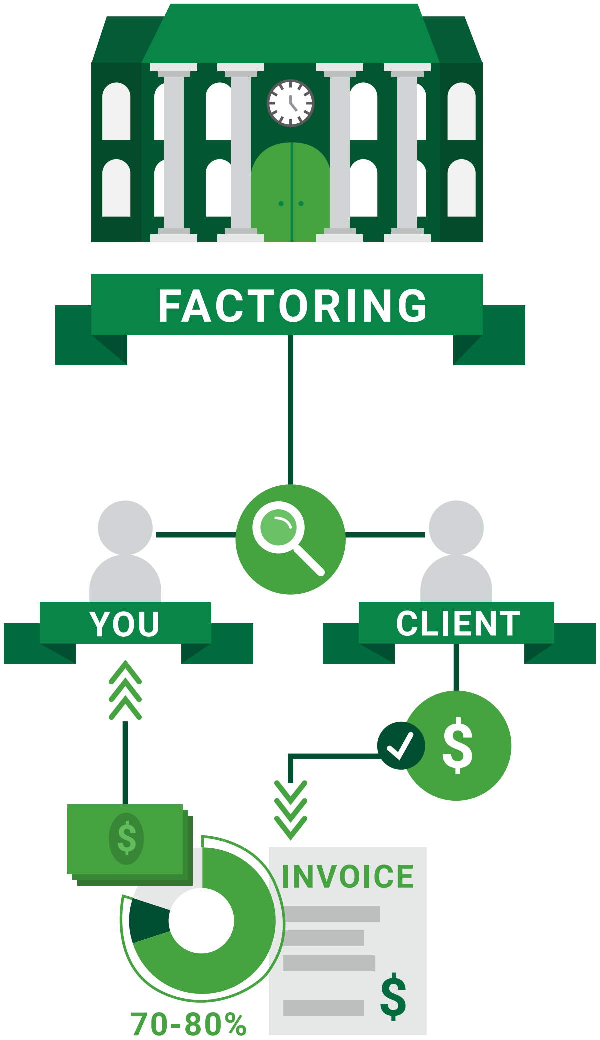
Look for refurbished off-lease computers that run the latest operating system and come with fast processors. They won't cost nearly as much as a brand-new system, but they'll have everything you need to upgrade your technology. Everything runs faster — even older programs — and you'll spend much less time waiting for the computer to boot software. You reap the benefits of having a faster computer without spending a lot of money.

Factoring Invoices

Sometimes it happens that invoices don't get paid quickly enough due to a customer taking advantage of the time allotted to them for repayment. The problem is the fact that you're still responsible for payroll, loan repayments, and other accounts payable that won't let you off the hook. Creditors don't care that your invoices aren't getting paid. They want their money when you've agreed to pay it.

There's always the option of a line of credit from the bank, but it comes with repayment conditions you might not want to deal with, lofty debt service covenants, and equity hurdles. Short-term loans are a good financial tool to help you in a jam, but repayment terms and low loan limits can hamper future growth. Or, you may want to avoid the bank altogether due to the credit rating of the business or your personal FICO score. You can get around these issues by factoring outstanding invoices and getting the cash in days instead of weeks.

Factoring an invoice is similar to getting a line of credit from the bank, but it doesn't rely on the historical performance of your business. Instead, the factor is more interested in your future growth and your customers. The factor **investigates the relationship**



between you and your customer along with the creditworthiness of the customer. This takes no more than a couple of days to accomplish. Once the investigation is completed and the factor is satisfied that the customer is reliable, the factor will advance against your outstanding invoices. **You'll receive an advance of anywhere from 70 to 80 percent of the outstanding invoice.** When the customer pays, the remaining percentage is paid to you minus factoring fees.

You don't have to wait for a bank to make a decision when you factor an outstanding invoice. The money is transferred into your account within as little as one day of invoice approval. And when the outstanding debt is settled, the invoice is closed out. Factoring is similar to getting a line of credit, but a line of credit is a fixed amount, whereas factoring relies on the outstanding amount of the invoice. It's an excellent financial tool for start-ups and businesses who want to grow but can't rely on a bank to give them a loan.

Renegotiating Contracts

Renegotiation is a way of finding money that is better off used in the business instead of paying an inflated price. Sometimes you've made a contract when your back was against the wall, such as getting a steady supply of a resource when no one else would deal with you. Or you leased your space at a time when locations like yours were in high demand but demand has fallen off. If you find your landlord is renting similar spaces for less than your lease, you may be able to negotiate a lower rent.

Contract renegotiation is an opportunity to go to your suppliers, landlords, or any entity you have an ongoing contract with and work on a lower price. Always be aware of the fact that everyone needs to make some kind of profit, so don't go too hard on negotiations. However, you do need to make the other party aware of the fact that they're charging you too much and they could reduce pricing a few percentage points to keep you as a customer. Most suppliers prefer to take in a little less profit rather than give up a reliable, responsible customer.

Finding more money to improve your business's cash flow is a matter of looking around for changes. Use multiple supply chains to combat fluctuations in commodity costs. Consider purchasing a property to get around the uncertainties of leasing a space and dealing with rent increases. Trim costs by installing energy efficient light bulbs and thermostat controls. In short, get creative with how you save money to lower your costs and increase your cash flow. You'll find that

Some raw materials aren't going to come any cheaper due to commodity pricing

these cost-cutting measures can help your business weather the lean times and also help you grow your business.

Finding Cheaper Sources of Raw Materials

You may feel that you're loyal to a supplier because you've dealt with them for a long time and they've always come through for you. There's nothing wrong with that, except the supplier may take advantage of the relationship and increase prices slowly over time. No matter how well you and your supplier get along, you're in business to make money, not maintain a friendship. Take a moment to make calls and search the internet to find out what the going rate is for the raw materials you're using.

Some raw materials aren't going to come any cheaper than what you currently get due to commodity pricing. But other raw materials aren't commodities and may come from a supplier that's much less expensive than your current one. You may not want to completely eliminate your relationship with your main supplier, and that's fine. But you want to cut back on how much you buy from them when another source is charging less. Ultimately it's better to have more suppliers than fewer, as it allows you to shop around.

Always make sure that the quality of the raw materials meets your standards before going ahead and ordering in bulk from a new supplier. It may turn out that what you're getting from the new supplier isn't meeting your quality standards or it won't hold up under pressure. Cheaper isn't always better, but it is worth making the effort to reduce costs. You also have the advantage of holding the price on your product steady and increasing your profits at the same time.

When Segmentation Makes Sense

You've found that a section of your business isn't meshing with the rest of the operation. That's not to say that the section has gotten out of hand. Rather, it's operating erratically due to various influences such as seasonal ebb and flow, an unsteady cost of raw materials, or manpower issues. These and other factors make a good argument for segmenting that section into its own operation.

Segmentation can be brought about in a number of ways, but you do need to turn a segmented business into its own corporation first in order to stop it from drawing down the parent corporation. Turning it into a subsidiary corporation isolates the profits and losses, allowing the parent corporation to fund the subsidiary or take profits at its discretion. And if the segmented business doesn't perform satisfactorily, it's easy to sell it to another company who wants to take it on.

Some of the ways you can do segmentation include designating certain machines or groups as being under the control of the new corporation. Or you can move them into an entirely different location

Talk to production floor employees to find out if there's something you can provide them

with its own manpower and management, giving it autonomy. Spinning off a somewhat problematic portion of the business makes it easier to counter fluctuations and contain problems without affecting the main business and its profits.

Look Around the Business for Cost Savings

Do you feel like you run a tight and lean organization? Look again. You might be surprised at what gets past you in terms of waste. Utilities, supplies, and even man hours can nibble away at your profits, and you may not know anything about it. Go over your expenses and figure out items that can do with a little trimming. Does the office need that much paper to operate, or are people not paying attention to how much of it they use? Is there spillage of a raw material on the production floor that happens more than just occasionally? And are there machines that are "ghosting" energy?

Poll the office staff to find out what they use the most of and ask why. If they order more than they'll ever use in a reasonable amount of time, have them cut back. Set up initiatives to keep an eye on waste, or even offer an incentive to cut back use on high-cost items. Look into why raw materials get spilled on the production floor and find ways to stop it.

Talk to production floor employees to find out if there's something you can provide them to prevent spills, or if there needs to be a change in how the materials are handled during production. Unplug machines that aren't in use, take batteries off full-strength chargers and put them on tenders, and make sure staff shuts equipment down completely after use. Sometimes machinery has a ready stage so it's faster to turn on. If no one's using the machine for the weekend, have it turned all the way off.

All of these are little issues that combine together into large costs. Educate, encourage reuse, reduce waste, and create protocols to follow for turning off equipment. When employees have an idea of the actual cost of their activities, they're far more likely to be cooperative and conserve instead of being wasteful.

Improving your cash flow is a multi-pronged process that produces results in variable amounts of time. Some of them have fast turnaround times, while the impact of others won't be felt for a few months. Keep your patience in check as your efforts will eventually pay off in the form of more money flowing through the business and sticking around longer. You'll also streamline your business operations, keep your employees doing their best, and find that profits increase without even having to sell more product.