10 TIPS TO IMPROVE CASH FLOW

Being short on cash because customers never pay on time is detrimental to your business. You risk being unable to pay employees and vendors, you cannot take advantage of purchase discounts, and your ability to compete in severely limited.

You may ask yourself, why do you have customers that pay late? Perhaps you have concluded that you failed to identify the customer as a bad credit risk. It is probably more likely that you encourage your customers to pay late because you don't have good internal procedures for collecting your receivables.

It is important as a business to develop a reputation as a strong collector who insists on timely payments from your customers. If you are a small business owner, you might find that hard to do at first, but building a solid foundation of collections will help ward off any potential problems down the road.

TEN TIPS FOR IMPROVED CASH FLOW

1. Get the proper start. Use a well-designed credit application.
2. Be certain your customer understands the terms of sale. Terms should always appear on your invoice, any quotes or pricing materials you distribute, and all sales agreements.
3. Do not hesitate to call and ask for your money. When you invoice your customer, you are acknowledging that you have done your part. Now it is time for them to do theirs.
4. Hold back orders from past due customers. If your customer perceives you to be soft on credit, they will be slow to pay you. Be firm but fair in your collection efforts.
5. Isolate larger invoices for proactive collections. Don't let large sums show as past due before you realize the invoice was incorrect, sent to the wrong address, or is in a pile on someone's desk waiting for approval. Call these customers shortly after invoices are sent, and well before the invoices become due, to verify accuracy, receipt, and payment status.
6. Treat deductions like invoices. Most deductions taken by customers are legitimate – but some are not. Research all deductions immediately. Begin your collection process promptly on all improper deductions. Customers can only take deductions if you let them.
7. Be consistent and timely in your collection efforts. Do not limit your collection activity only to times when you have a cash shortage. Build a true, customer service rapport with your customers to enhance your ability to collect on a past due invoice.

Need additional information? Have questions?
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Emergent Partners is a management consulting firm specializing in helping companies define and execute operational and financial excellence, devise effective strategies, and align those strategies with actions enabling them to take advantages of opportunities in their markets.

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8. If you have lien rights, follow the statutory procedures to perfect them. Lien laws exist to protect your interest, to encourage you to do business with your customer. Take advantage of these laws and follow procedures to improve your chances of being paid.
9. Be selective in granting credit terms. If you believe a customer is not creditworthy, don't sell to them on open credit. Consider other alternatives such as cash in advance, C.O.D. or 50% down plus 50% before shipping.
10. Seek out a credit group, and exchange payment history on your customers. Exchanging information lets you learn from and avoid someone else's mistake.

Being financially heathy as a business takes solid, consistent internal procedures. Building a solid foundation will ensure that your financial reputation as a business is heard by your customers. As a business you should not be upset if a customer does not want to do business with you because of your credit procedures. You should be glad that you flushed out a potential problem with your cash flow in the future. Healthy cash flow translates to a healthy business.

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