For Your Business Success
…maximize your cash flow

Regular readers of this column are aware that I launched my 2019 challenge to every small business CEO (“get your business in order this year”). In my last column, I focused on monitoring your cash flow. If there is one financial challenge that small business owners should master, it’s cash flow. Your business could have strong sales, healthy profit margins and a growing customer base — but a negative cash flow could sink you. More than 80 percent of failed small businesses experience cash flow problems.

In this column, I will give some suggestions on how to maximize your monthly cash flow, where to find funding for a new business (by reader request), and suggest some ways to improve your cash flow by outsourcing day-to-day tasks.

So now let us assume that your budget is up and running and that you’re in the regular routine of budgeting. It’s time to turn your attention to cash flow to make sure your business is bringing in enough money to cover expenses. The goal is to maximize the amount of money your business brings in while minimizing the amount that goes out. Here are a few things you can do to maximize healthy cash flow:

1. Collect payments as quickly as possible. Bill customers right away to give yourself the best chance of collecting your payments quickly. Generally speaking, the faster you can collect payments, the healthier your cash flow will be. You may even consider offering incentives, such as a small discount, to those who pay immediately.

2. Utilize preorders. Entice customers to pay upfront for products or services, to sign up for regular reorders, or to order items in bulk. Again, you may offer a slight discount or gratis service to get customers on board with preordering.

3. Negotiate with vendors. In general, the longer you can hold off your vendors, the more favorable it is for your cash position. Wherever possible, try to negotiate longer payment terms (for example, net 30, 60 or 90 days). Doing so will be easier if you have a long-standing relationship with your vendors and have a good payment history. Installment payments can also make a lot of sense, rather than large upfront payments, even if you end up paying a little more over time.

4. Remember that inventory ties up cash. Inventory requires cash to acquire, and until you sell the inventory to customers, that cash is tied up. Inventory
that doesn’t turn over can prevent you from financing other areas of your business.
5. Don’t forget about your budget. It’s worth reiterating: Constantly refer to your budget to make sure you’re in line with your goals, as well as to track cash flow.

Some CEOs that are in the “start-up” stage of their business, wanted some suggestions about funding the business. As I have related in past columns, one of the biggest challenges is coming up with the funds to get up and running. It can be a daunting process, because it’s hard to know which upfront costs you’ll need to cover. Your budget should help indicate your upcoming costs.

Common mistakes new business owners make when figuring out how much startup funding they’ll need include forgetting about expenses, overestimating sales and not accounting for potential growth. A standard practice is to add 10 or 15 percent extra to your initial loans, which can serve as a safety net to cover unexpected costs.

There are a wide variety of funding options available for new businesses. Here are some of the most common:

1. Small business loans: Securing loans from banks or credit unions is one of the most straightforward ways to obtain startup funds. Remember to shop around and compare rates when looking for a small business loan.
2. Small Business Administration loans: These loans are guaranteed by the U.S. Small Business Administration, a government body created to help small businesses thrive. These funds often come with more stipulations than bank loans. However, the terms of these loans are generally favorable to small business owners.
3. State and local government loans: The availability of these types of loans varies based on your location. Be sure to check with your city and/or state to see if they offer loans for commercial development.
4. Nonbank lenders: Peer-to-peer loans are a good option for business owners without a strong financial history. The process may be faster than a traditional loan, although interest rates are often higher. Nontraditional credit metrics often may be used, such as payment histories to vendors and your presence on social media.
5. Venture capital: Some businesses can receive funding from venture capitalists in exchange for shares of ownership in the business. These
investors take a risk with hopes that your business turns a profit if and when it goes public.

6. Crowdfunding: Services such as Kickstarter, Indiegogo and GoFundMe can be another way for businesses to raise startup funds. These crowdfunding communities allow individuals to donate to emerging businesses. If you can persuade people to believe in your vision, they can start supporting you before you open your doors.

7. Government grants: Government-sponsored grants are typically available to only a small percentage of small businesses, but they are worth looking into. Such grants are usually available in areas looking to stimulate economic growth.

8. Bootstrapping: A final option is to use your personal savings or to take a second mortgage on your home. This is how the majority of small businesses get started. There is a certain level of risk involved because you’re investing your own money, but the trade-off is an immense sense of accomplishment if and when your business succeeds.

One last suggestion. Some CEOs can improve their cash flow by outsourcing certain tasks to avoid burnout while also boosting cash flow and saving time. Yes, outsourcing requires an upfront investment, but you can use the time you save to generate more revenue for your business. As a business owner, it’s important to keep focused on planning for the big picture and meeting your long-term goals. Here are some common tasks you can consider to outsource to save yourself time and, ideally, increase cash flow:

1. Accounting: Taking care of accounting on a day-to-day basis can be a full-time job in itself, so hire an accountant to do it for you. In addition to freeing up time, a professional accountant can help improve cash flow by cutting costs and helping you pay less at tax time.

2. Payroll: No matter the size of your business, handling payroll can be a tedious headache that recurs twice a month or more. Hiring a payroll service will save you time and headaches while also ensuring your employee payments are up to date with labor laws and tax codes. It will also save you from having to pay penalties to the IRS for payroll-related errors or missed deadlines.

3. Social media: Social media platforms, such as Facebook, Twitter and Instagram, are a great way to tell the story of your business. While you shouldn’t step away from social completely — it’s refreshing for followers to hear directly from the owner of a business — you also don’t need to be
the main person posting on your social accounts on a daily basis. Outsource the bulk of your social media activity while also retaining the right to add a few posts of your own when you have time.

4. Email marketing: Email marketing is one of the most cost-efficient ways to drive business, but running an entire email program yourself can be a lot to take on. Consider hiring an email expert to take care of your email efforts so you can focus on other things that may need your attention.

5. Phone calls: Hiring a receptionist is one way to avoid being stuck on the phone all day. You can also look at what the majority of your callers are interested in — directions to your office, pricing, booking appointments, etc. — and provide that information elsewhere such as your website or Facebook page. You can even set up your website to take online orders or schedule appointments, making phone call overload a thing of the past.

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