CHECKLIST

Creating Cash Reserves

Cash in the bank acts as a buffer and can help you better weather the ups and downs you may encounter in running your business. Reserve cash buys you more time if things go wrong, and it allows you to experiment and test new ideas without needing immediate revenues to cover your costs.

	To do?		Done	
Cash from customers	**Yes**	**No**	**Yes**	**No**
Offer discounts for cash.				
Offer early payment discounts to speed up getting paid.				
Hold a sale to reduce stock.				
Train and encourage staff to up-sell and sell add-ons.				
Offer surplus stock to selected customers.				
Increase prices.				
Offer special deals to your best customers.				
Offer alternative payment options.				
Run credit checks on new customers.				
Send out invoices on time, every time.				
Follow up overdue payments consistently.				
Reduce payment terms to a shorter time.				
Take advantage of special offers from suppliers.				
Negotiate better payment terms from suppliers.				
Use a credit card to spread payments to suppliers.				
Negotiate with suppliers to take back excess stock.				
Only order what you need rather than stocking up.				
Look for cheaper suppliers.				

Better cash management				
Always use cash flow forecasts to manage working capital.				
Create efficiencies by purchasing new technology and energy-saving				
appliances. Improve security to prevent shoplifting.				
Recycle materials in the office.				
Use subcontractors or part-timers instead of taking on permanent staff.				
Sell off unneeded assets.				
Review overdrafts and loans.				
Hire equipment instead of buying.				
Use online tools to make purchases and sales.				

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1. Focus on your goods and services

Increase your prices

Small businesses may not always charge what things are worth.

Evaluate regularly whether prices can be increased by checking your costs and what competitors are charging. If you don't keep up with inflation, you're going backwards, so as a general rule of-thumb, customers should be paying more each year, unless your input costs are also falling.

A small increase in price without any fall in sales, or increase in overheads, adds up over time.

Identify services you provide or products you sell that are price insensitive and increase the price by a small amount.

Decrease stock levels

Reducing stock levels can transfer cash directly to your bottom line. You might be able to reduce the stock and raw materials you hold by making better use of online ordering and more efficient warehousing software so that you stock only what you need for the immediate future.

Have a sale! By holding a stock review every few months you may be able to eliminate any redundant products and slow sellers. You may also be able to buy stock from suppliers just a few days before you need it. The money saved can then go straight into the bank.

You can sometimes receive large discounts by buying stock or materials in bulk, but always weigh this against the fact that this cash is then not available for anything else. This is especially critical when times are tough and you need cash for wages, rent and general running costs.

Stop stockpiling inventory

Many businesses will buy additional inventory in order to have a safety surplus just in case there's a sudden increase in demand or a large order comes in. This ties up a huge amount of your capital and drastically reduces your cash flow. Implementing a build-to-order business plan means that less of your cash is tied up in stock that is sitting idle.

2. Chase debts

Contact the customers who owe you money. Many small businesses feel uneasy about asking their best customers for overdue payments as they fear being pushy might send the customer elsewhere. But they do owe you money – money that could be spent on growing your business or getting you through a tough patch.

Develop a firm but fair collection policy. Customers need to know you will consistently follow up on overdue bills. This is where good accounting systems are essential because they enable you to quickly generate overdue payment reports, or flag them automatically for your immediate attention. Also, offering alternative payment options, such as taking credit card payments, or accepting electronic payments can sometimes help you collect faster.

Put pressure on late payers

If a client is routinely late with payments, then it makes sense to call them and ask why. It may be due to a misprinted payment date on their invoice, financial issues, or even customer disputes. Whatever the reason, the only way this problem can be resolved is by first discovering the issue.

Send your invoices out quicker

Consider delegating a responsible person to handle all the invoicing. This cuts down on the chances of misunderstandings or forgotten invoices. Any bills should be sent out as early as possible, regardless of the due date. A client is more likely to pay you earlier if they receive the bill promptly.

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3. Check communication and technology costs

Two recurring costs for businesses are phone and internet costs. These costs are changing all the time, and usually track downwards. But are your costs going down? Check regularly to see you're getting the best deal you can. Don't hesitate to change to a cheaper supplier, but make sure the quality and service are equivalent to what you're receiving now. This may apply to other products or services you have, so apply this practice as broadly as you see fit.

Communications

Review your communication costs now and you might save hundreds a month. For example, do you need all of your current landlines? How many mobile phones does the business have and are they all needed? If you make lots of long-distance calls, can you lower costs by using VoIP or Skype, or searching the internet for 'long-distance plans'?

Credit terms

If you offer credit, make sure that your payment terms are clearly indicated on invoices and other correspondence. When negotiating a new contract, remember to include payment terms so your new customer is aware of your expectations from day one.

Use technology

Make and receive payments electronically, saving you time and money, and avoiding invoices getting lost or misplaced. Order your supplies over the Internet to save time.

Check your cash daily

Make a record of how much cash is spent on a daily basis and ensure that you are satisfied with the reasons for spending. It will be much easier for you to identify improvements and learn where your cash is going.

4. Trim your costs

Reducing your costs can be a fast and effective way of increasing the amount of cash in the bank. Look carefully at your expenses to see what items you can reduce or eliminate. Even small changes will add up to significant amounts over time. Look at each item and ask yourself if it's really contributing to the profitability of your business.

If you own your premises – think about the opportunity cost of the money tied up in the building. How could you use it to build new business opportunities? For example, do you have unused space you could rent out?

If you have equipment – make sure it's being used effectively. Is your equipment costing more to maintain than it makes? For example, too many vehicles are costly to maintain and may not be generating any income.

If you have subscriptions to services you don't use – This could include such items as cleaners, online subscriptions for software or data and servicing of unused equipment.

If you have staff – examine your staffing levels, particularly if you have a seasonal business. Are there times when you could manage staff numbers better? Perhaps contracting part-time people during busy times would be more effective than full-time employees. Even if you pay the contractors more and the overall cost doesn't change, at least the higher expense will come during the busy periods and not impact your cash flow during quieter times.

Offer incentives for early payment

Encourage early payment by offering some form of value to your clients. This could be a discount on follow up orders or a small service offered free of charge. However, make sure these incentives are feasible, especially where free services are concerned.

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5. Looking internally

Cash flow problems are common in many small businesses. Here are some of the ways you can free up spare cash.

Sell unused assets

Do you have equipment that's underused? If you use an asset only a few times a month or year, then could it be a better option to rent or lease similar equipment when you need it? Many businesses have assets that, if sold, create cash that may be better used as working capital to keep the business going.

Look for alternatives

Do you always need brand new assets? Sometimes the latest technology can be a business advantage, but sometimes the newest, shiniest gadget can be money better saved. Are secondhand office furniture and equipment sourced through auction sites a better option? Could you downgrade business vehicles to save cash?

Improve your cash cycle

A shorter cash cycle can make it easier to manage your money so consider ways to get paid quicker. Some customers may be willing to pay a deposit or full payment in advance.

6. Evaluate Your Business Borrowing

If you already have a business loan, is it the right loan for your business needs? Many small business owners make the common mistake of using their line of credit to finance larger capital purchases, tying up a significant portion of their line of credit for a period of time and reducing their ability to use it to see them through short term, day-to-day fluctuations in cash flow and unexpected business emergencies and downturns.

Your borrowing should be reviewed to ensure it is balanced with line(s) of credit available for short-term dips in cash flow, and long-term loans for purchasing long lasting assets like equipment. You may want to increase your term loan borrowing, to free up available credit space on your line of credit. Depending on the capital purchase you may also want to consider leasing a piece of equipment, for example, to minimize your regular, monthly borrowing payments.

Other options to consider when looking at how you borrow include whether to secure the loan and how you want to pay it back. Securing it with real estate, for example, may offer you a better interest rate and longer repayment period. Lines of credit also allow you to pay only the interest, while term loans will require you to pay back the interest and principal within a fixed time frame. Fixed rate loans help smooth out cash flow, by eliminating fluctuations in payments due to changes in interest rates.

While you want to minimize business debt, and may prefer to be debt free, borrowing can offer you a means to effectively grow your business and take it to the next level – generating greater revenues far in excess of the costs of borrowing. Just ensure if you do borrow or increase your existing borrowing that the costs of borrowing, you don't leave yourself too cash strapped to manage your business effectively day-to-day.

Cash tip!

Take advantage of innovation and technology to do business smarter.

Check your finances on the go with our intuitive internet banking services getting money into your accounts and checking your cash situation is only a glance away.

WOODSBORO BANK