

## 9 Ways to Improve Cash Flow

We know what it feels like when cash stops flowing. You're mind is on your business while you stare at your kid's basketball game. You find yourself breathing harder even while watching television. You think about it around the clock yet, in spite of brief glimpses of hope, nothing ever really gets solved. You dread seeing the mail come with another stack of payables; all demanding payment with late fees attached.

We know. We've been through it and we get it.

Before your around-the-clock thinking takes you for another sleepless night, let Your Profit Authority Advisors suggest these strategies that may be the beginning of your comeback story:

- 1. Rework existing financing:** Spend some time on your financials either alone or with help. Bring in a new expert, someone with fresh eyes, and not the same people who have helped you into the mess you're in. Review and reshape your P&L and Balance Sheet. Consider consolidating your debt into one package at a lower rate and don't be afraid to ask for creative lending solutions.  
***Your Profit Authority experience: We recently created extra cash flow for a larger but still small business, by repackaging existing loans at more favorable rates and terms and an extra \$500,000 line of credit for working capital. They had previously been turned down by many banks until we properly prepared their balance sheet. In addition to the line of credit their monthly payment was lowered by 35% of what it had been without the line. This created a huge injection of cash for them.***
- 2. Convert excess inventory by aligning purchases with production needs:** Inventory means tight resources from shelf space to employee time all leading to one big shortage: cash. It will be worth your time to evaluate your supply chain processes which may allow you to sell off excess or stale inventory, convert to "just-in-time" inventory management and streamline ordering procedures. For shipping, take advantage of "Lean Logistics" brokers who let you share shipping costs with a variety of other businesses.
- 3. Eliminate prepayments and deposits:** Review which suppliers and vendors may be tying up your cash when requiring deposits. For instance, your insurance company may either require or offer you an option or discount to pay a year at a time. Since cash is tight, commit to only a month at a time allowing you to be more flexible and preserve

your cash assets. If the vendor is holding your cash for a year, it's no crime after a few months to ask them to return your cash and convert you to month-to-month.

4. **Aggressively negotiate credit terms with suppliers:** Ask for discounts where applicable; ask for the most competitive rates. Have the conversation, but make sure it's the right conversation. If you need to huddle with someone, we can help.

***Your Profit Authority experience: A mattress business came to us looking for credit to buy supplies for a large contract opportunity. In a day we negotiated \$120,000 in new credit for the client with 5 vendors who had cut him off and wouldn't even take his calls. This was accomplished by addressing their concerns of how they would be guaranteed payment and get back a little on the old bills as well.***

5. **Eliminate unnecessary equipment:** Vendors can make leases, maintenance contracts and other monthly programs very attractive. Do your homework. That said, selling some of your equipment and leasing it back can also serve to free up cash. Also sell off any inoperable or unnecessary equipment and raise cash. Finally sell off equipment that has debt associated with it such as a bank loan or equipment lease, where the equipment is no longer necessary for your operation. This will provide a perfect opportunity to open discussions about repackaging your loans with the lender and lowering your payment. If you just turn over the money from the sale (which you are obliged to do if they are secured) your payment won't change.
6. **Create repayment over time:** One of the problems with cash restraints is the damage to your corporate and personal reputation. Creditors become more aggressive in their demands for payment, less flexible in payment options and can actually increase the price. A third party such as Your Profit Authority can help. If the creditor realizes you now have a plan then they will have more confidence in your ability to pay and they will be more likely to work with you. We can even help establish legal footing that will ensure your creditors that they can be satisfied.
7. **Credit works both ways:** Above, we discussed strategies for repacking your debt including purchases made on credit. Take the time to audit your current inventory making note of date of purchase. Stale inventory is unrealized cash.

***Your Profit Authority experience: We returned all inventory of an auto parts client to their single supplier for credit against what they owed the supplier. Then we***

***purchased all new inventories on a 2 year note. The result was no stale inventory, all high turn new inventory, reduced debt by \$400,000 and better cash flow due to higher turn products.***

8. **Create or follow company policy on down payments:** While orders are the lifeblood of your business, if not managed properly they can strangle the company's cash position. Buying supplies and paying labor, rent and other expenses while waiting the 30 or 60 days for your money creates negative cash flow. In order to satisfy orders, you may need to purchase materials, subcontract services or even hire new or temporary employees. Construct a deposit policy that makes sense and then follow it. Perhaps you may require 50% down on orders over \$1,000. If you don't feel comfortable informing the customer, throw us under the bus. Let the customer know that your "finance department" has a policy that requires down payments. We would be happy to play that role for you.
9. **Secure financing through your suppliers:** Analyze your sales cycle and monitor closely the effects on your cash needs. If posed suitably, the supplier may see the benefits of investing in your company in one of several ways; through credit, a loan, or even ownership. Tread lightly if you are considering offering equity (ownership) and be sure to consult with us or someone else skilled at negotiating this before doing so.

A cash crunch can look like a black hole that you feel you'll never get your business out of. Remember, your creditors want to understand what is going on in your business. They know if you default on your debt it will be very difficult for them to recoup their funds, so this can be a sword that cuts both ways. Communicate with them but be careful to insulate yourself at the same time. You don't want them coming to the wrong conclusions. Once you are through doing what you can to raise cash, hang on to it. You must have a plan and know what you are going to do differently to prevent yourself from repeating history. Your Profit Authority Advisors invites you to give us a call; let us strategize with you, evaluate your cash situation. We can help you create a strategy that will get your cash flowing again.