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7 ways to improve your cash flow



By [Joseph Anthony](#)

One of the challenges of running a small business is dealing with the feast-or-famine nature.

I'm talking not just about the flow of business, but also the flow of cash into and out of the business. Here are seven ideas for improving your small business's cash flow:

- 1. Bill promptly.** Ever find yourself so busy building your business and making deadlines that you don't get around to billing on a regular basis? You're not alone. One contractor I know sometimes neglects to send out bills for small home-repair jobs until he approaches the deadline for monthly employer tax payments and realizes he doesn't have the cash available to cover the payments due. If you don't already have a system in place, start (or assign an employee to start) billing for projects on a regular basis. When taking on longer-term projects or clients, negotiate in advance for regular payments instead of allowing the amount due to build up until completion of a contract.
- 2. Create incentives for faster payment to you.** Small businesses can sometimes significantly cut the time spent waiting for payment by offering a discount for quick payment. I've received bills from businesses offering discounts of 1% or 2% for payment within 10 days. If I was going to pay the bill within 30 days anyway, I'm likely to fire out a check right away to get that little extra discount. Good for my bottom line; good for the business's cash flow, too.
- 3. Avoid slow pay/no pay customers from the start.** The best way to avoid cash-flow problems because of customers or businesses not paying you is to weed out those slow pays/no pays out before they become clients. So if someone is about to become a significant client or customer, do your homework. Ask for -- and check out -- credit references. Call other businesses that have had a relationship with the client. You might even pay for a credit check from an organization such as Experian or Dun & Bradstreet.
- 4. Use barter instead of cash.** You could reduce the strain on your immediate cash if you need goods or services from someone and can barter goods or services of your own in return. Note: This is not a way of cutting any tax bills -- you're still required to report the value of the barter transaction on your tax return.
- 5. Trim your inventory.** OK, so you can't go to a "just-in-time" inventory management system like those that many manufacturers have adopted. How about "just-in-less-time"? Money spent on inventory is money that isn't producing any interest or savings for you. (One exception: You can gloat about your "excess inventory" if you loaded up on heating oil last year at 85 cents a gallon.) Sometimes reducing inventory can be pretty simple. I've seen restaurateurs cut back on the

size of their wine cellars, focusing on quality wines from a few regions instead of trying to be all things to all diners. If the customer still has good choices, it may not even matter that he has fewer choices than before.

6. Consider consolidating your loans. I know it's often tough for small businesses to borrow money. But I'm surprised at the number of ways entrepreneurs do manage to borrow. One small business owner I know has only one employee, but has four different loans related to his business: an equipment loan, a car loan, a business line of credit and a business credit card. If you also have several loans related to your business, review the rates and terms on each one. You may be able to consolidate two or more loans into a lower-interest account and improve your cash flow. I'm generally not a fan of stretching out loan payments, but if you're thinking of talking to a lender about consolidating existing loans into a new loan, you might look at taking on a longer-term loan in exchange for lower monthly payments.

7. Give gifts, not meals. This is a little thing, but it's definitely worth keeping in mind if you want to tell a client "thank you." Take a client to lunch and you can deduct only half the cost of the meal. Buy a client a gift or gift certificate for up to \$25 and you can write off the entire cost, further cutting your tax bill and improving your overall cash flow. Guess what the tax guy advises his clients to do?