How to increase cash flow

1- Increase profitability
   increase volume of sales
   increase gross margins (sales minus cost of goods sold)
   decrease over head

2- Understand timing of receivables and payables
   shorten the average days it takes to receive payments on account receivables

3- Don't neglect collections for the sake of sales

4- In many businesses, so much attention is paid to making the next sale that sometimes collections (accounts receivable) get short shrift. A sale is only good if you can collect 100 percent of what is owed to you. As you court new clients, ask yourself if they'll be able to pay you on time.

5- lengthen payment of accounts payable

6- Understand seasonal fluctuations in Sales

7-Increase your ability to borrow
   match the liquidation of debt with the life of asset
   match the liquidation of debt with seasonal fluctuation in sales

8- Pay Your Employees and the IRS first
   Don't use money earmarked for salaries or payroll taxes to finance the growth of their business. Using funds for payroll taxes is the most expensive financing imaginable.

9-Don't reward yourself by abusing your business

   Some entrepreneurs are too quick to reward their hard work, with new personal purchases - and, in some cases, to appear successful before they actually are. Use your cash to build the real, not the apparent, success of your business.

10- Do your books

   To manage you need to measure. Do your books.

Increase Cash flow, Net Worth, and Profitability Using the 1% Solution

A useful way of looking for the root causes of cash flow problems is to develop a formal cash flow statement. The same accounting dynamics can be done by looking at the four sources and uses of cash in your business by using the RE-ALE For Ways and Four Ways out model. Sometimes the source of cash flow problems is one major disaster, for example a default in a major accounts receivable account or an ill planned purchase of a significant asset. Sometimes it is just a question of slow payment on account receivables, generous personal draws or the failure to use supplier credit to match receivables. Many times poor cash flow is caused by a series of business decisions that thwart the proper use of cash. Please list your suggestions we can all meet our cash flow challenge by using the **Four Ways in and Four Ways Out Model.**

Four Ways IN

1. Cash Revenues (now) -Activities that increase cash sales

a) Increase cash sales

Use "up" selling, personal selling and in-store marketing.
Example: What you like a fresh baked cookie with that cup of coffee?
Package goods in a "bundle" to increase sales.
Example: Consider our party values pack. With any purchase of our cookie pizza, we will give you hats, napkins and plates at half price.

b) Improve product mix

Drop "dead" items or lines and re-stock popular items. Dead stock consumes resources that can be used for having items that customers want. Be customer not product focused.

c) Review discount policy

Discontinue their generous discount policy. They should not give away valuable margins unless it leads directly to a sale. DO NOT GIVE AWAY MARGINS TO INCREASE SALES

d) Use excess capacity of equipment wisely

Look for a market segment that is willing and able to buy in bulk and then use efficient equipment to use long production. which will lower costs by lowering set and switching costs.

e) Increase prices

Raise prices by 1% and not hurt sales?

f) Don't set a pricing policy until you know your costs. Know your cost/ reduce expense-

Other business cost/pricing should not be the determining factor on you set your prices.

Received on Accounts or payment Accounts Receivable (later)

h) Faster Collection

The longer you give credit the less money you have to run your business. Don't let people work on your money if it is possible.

i) Give credit only when necessary

Don't give credit unless absolutely necessary to increase sales volume. Increase cash sales and decrease credit sales. Review your generous discount policy.

j) Don't neglect collections for the sake of sales

In many businesses, so much attention is paid to making the next sale that sometimes collections (accounts receivable) get short shrift. A sale is only good if you can collect 100 percent of what is owed to you. As you court new clients, ask yourself if they'll be able to pay you on time.

2. Sale of Assets

a) Sell all non-performing assets/ Liquidate superfluous equipment/ Use under utilized space for rent income.

Sell idle or dead equipment! Unused space could be rent! Sell at equipment .

Rent Equipment

b) Liquidate dead inventory

If you keep it long enough it may come back into style. Better to put your resources into something that your customers want. When putting dead inventory up for sale sell it over time increase the discounts every few days.

3. Loans

a) Increase the ability to borrow

Make sure they know how much projects will really cost and ask for it.

b) Match borrowing with needs

Don't borrow long term for short-term projects and vice versa.

4. Capital Investments

a) Increase personal investment

I am not suggesting this is easy.

Four Ways Out

1. Cost of goods Sold - Sales Expense

a) Fine tune sales (variable) costs and fixed (overhead) costs

Reduced labor cost by purchasing by buying labor savings assets. This raises risks and overhead costs that are fixed (i.e. interest expense) but reduces labor per unit a sales (variable) cost. (We will go over this in a latter class)

b) Barter

Barter is great for organizations that have excess capacity, and high gross margin %, meaning low sales costs in relationship to revenues. Example: reduce advertising expense...reduce cash sales. Even if you lower the receipt of cash on sales by bartering in your high margins segments the lower cost of the sale increases cash because you are trading only the cost of providing the goods or service which is only a small percentage of the sales price for a full dollar service to you. This only works if bartering can increase sales and should never be used if cash can be had to make the sale. Bartering is best used after you have paid for your overhead for the month.

c) Reduce direct labor expense. Increase through-put/ productivity

Concentrate on sales and not production. Let sales drive production and not the other way around. Reduce set up times. Reduce supply and completed work inventories. Look for and eliminate bottlenecks in operations. Reduce by 1%

d) Drop low margin segments

This is the cost of goods side of dropping a low margin sales segment. Why waste time and money "trading dollars"?

e) Remember if you increase sales your Cost of Goods Expense will rise accordingly.

Fixed Expense (now)

a) Negotiate fixed expenses

Every thing is negotiable. Can they go through each of their fixed expense line items and negotiate a 1% reduction in costs?

b) Reduce bookkeeping errors

Is it really a good idea to have more than one person running a bookkeeping system if systems and controls have not been developed?

c) Negotiate better interest rate

Get the best rate possible. Know what the prime rare is and don't pay more the 2% over it.

d) Have a bad check policy.

"We don't take bad checks."

e) Get a credit line from your bank and make sure you are not paying for bounced checks.

f) Watch for Costs of Coordination

Are you trying to grow your business too fast. Make sure the various business segments in your business "fit" together and are not pulling them in opposite directions.

g) Use selective credit

Every dollar lost to bad debt represents a much greater amount of lost sales. This depends on the margin percentage. The lower the margin the higher the amount of sales you will need to cover bad debt.

h) Pay Your Employees and the IRS first

Don't use money earmarked for salaries or payroll taxes to finance the growth of your business. Using funds for payroll taxes is the most expensive financing imaginable.

Pay Accounts Payable (later)

a) Increase payable amount

If your suppliers are capable of giving you generous credit they should use it (wisely).

b) Stretch payable time

Before extending credit make sure you have established credit with their own suppliers. Match the terms.

2. Purchase of Assets

a) Buy on time

Some times it is good for cash flow to carry a little debt

b) Negotiate discounts for cash

Cash is always better than credit. When paying in cash there is nothing wrong in asking for a discount.

Inventory Asset Control

c) Buy better

Carry items/ services that customers want. Be customer focused.

d) Take all discounts

That 2% net 30 discount actually is approximately 27% discount on an annual basis. Use it! ! !

e) Reduce carrying costs

The more slow-moving or dead inventory you have the more it cost in storage, interest and shrinkage expense.

f) Control shrinkage

Employee theft is a killer.

g) Concentrate on sales not production

Inventories should not be used to cover poor operations. Discount/ liquidate.

h) Measure your inventory turns

An inventory turn is found by taking you total cost of goods sold for the year and dividing it by the average cost of inventory on hand. Find out what the "standard" inventory turns are for you business.

3. Pay Loans

a) Short term to long term

Stretch payments if necessary.

b) Payoff debt with equity financing

If you have extra funds (by liquidating assets, capital contributions, reducing expenses) it may be a good strategy to become debt free instead of planning an expansion. You can could take on a partner/ find an angel or whatever. This is only an option, not a recommendation.

c) Refinance

This is a good time to refinance. Each 1/10 of a percentage point of debt means huge saving over the lifetime of your loan. Pay attention to your credit card rates. They are increasing.

4. Capital Draws

a) Clarify the "Personal Funds" Challenge

Family businesses don't run like corporations. It is inevitable that the ending year "pot of money" needs to be divided between personal and business uses. Good communications and planning on this one is a must.

b) Don't reward yourself by abusing your business

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Increase Cash flow, Net Worth, and Profitability Using the 1% Solution

A useful way of looking for the root causes of cash flow problems is to develop a formal cash flow statement. The same accounting dynamics can be done by looking at the four sources and uses of cash in Chip and Cookie's (or your) business by using the RE-ALE For Ways and Four Ways out model. Sometimes the source of cash flow problems is one major disaster, for example a default in a major accounts receivable account or an ill planned purchase of a significant asset. Sometimes it is just a question of slow payment on account receivables, generous personal draws or the failure to use supplier credit to match receivables. Many times, as in Chip and Cookie's situation poor cash flow is caused by a series of business decisions that thwart the proper use of cash. Please list your suggestions on how Chip and Cookie can meet their cash flow challenge by using the **Four Ways in and Four Ways Out Model.**

RE-ALE

1 Revenues

2 Expense

3 Assets-selling

4 Assets-buying

5 Liabilities-borrowing

6 Liabilities- paying

7 Equity- Contributing

8 Equity- Drawing