

Seven Ways to Skyrocket Your Small Business's Cash Flow

By Carol Tice, August 1, 2011

When it comes to small-business money problems, it's often not the sales volume that's an issue -- [it's the cash flow](#).

Money simply isn't there at the time when you need it to pay bills. It straggles in next week or next month, or even next quarter. You end up borrowing to keep the business afloat until those late payments finally turn up. This raises expenses, and causes more cash-flow problems.

How can you escape the cash-flow trap? Here are seven tips from John Formento Jr., an analyst with the business-information firm [Sageworks](#) -- plus a few of my own.

1. **Monitor accounts receivable.** Do you know whose bills are overdue right away? Formento recommends reviewing your accounts receivables weekly to make sure no late payments escape your notice.
2. **Pay bills when they're due -- not before.** Only pay bills early if a vendor offers a discount for doing so. Otherwise, keep your money in the bank until the moment you must pay it out.
3. **Get better terms.** If you're finding the business is short of cash every month around the 15th, adjust your payment schedules with vendors so their bills aren't due until the 30th. If you currently pay bills in 15 days, see if you could make it 30 instead.
4. **Do your homework.** Investigate a prospect's history of paying creditors. Ask for references -- and then check them.
5. **Be picky about who you offer credit.** If you have doubts, ask them to pay cash. Or offer a small amount of credit and test the waters before you extend credit for larger amounts.
6. **Trim unnecessary expenses.** Have a defined purpose for any expenditure you make. Formento recommends implementing a policy in which a planned expenditure by any employee must be preceded by filing a statement that explains and justifies the expense. Review existing recurring expenses to see if the product or service is still needed.
7. **Refine your inventory mix.** It's a common error among small retailers to hold too much inventory. Identify your best-profit and fastest-turn items as well as your low-margin and slow-turning merchandise. Eliminate the items that are gumming up the system and leaving too much money sitting on store shelves.

For the full article featuring [Sageworks](#)' insight, please visit Entrepreneur -- [Seven Ways to Skyrocket Your Small Business's Cash Flow](#).