



Duane A. Carey, CPG-10305

# Cash Flow is King



Columnist's note: This column occasionally strays from pure marketing issues into broader business topics. In this case, given the current economic conditions, I thought you might benefit from an article that we recently published on behalf of one of my clients in *Maryland Entrepreneur Quarterly*. My thanks to that newspaper and my client, Mr. Marc Rubin, CPA of the accounting firm Berman, Goldman & Ribakow, for allowing me to reprint it in TPG.

Growing companies fold. Profitable companies get sued for not paying their bills. Innovative companies can't make payroll. How can this be?

They simply lack control over their cash flow.

Although showing a profit on paper is very important, for small or growing businesses the most critical measure is often cash flow. It determines whether or not they can pay their most important people – their vendors and personnel. There are numerous ways to improve cash flow in your business, and they can be broadly classified in two ways: cash coming in and cash going out. Below are some tips for both.

## Cash Inflows

One of the more important aspects of cash-flow management is getting paid quickly. Not only to make cash available to run the business, but also to mitigate risk. Put simply, the quicker you get paid, the lower the probability that you'll be left holding bad debt; conversely, for every month that a receivable stays on the books, the chances are increasingly smaller that you'll get paid.

- Obtain a deposit when the order/contract is written.
- Offer terms of "2/10, net 30". This means that you will give the customer a 2% discount for paying within 10 days; otherwise, the net balance is due within 30 days. The implied interest of these terms is about 45% per year – that is, if your customer does not

take advantage of the early payment, he is effectively taking a loan at 45% per year to pay at 30 days! If he does the math, he'll likely pay early.

- Issue invoices promptly. Ideally, issue your invoices with the delivery of your product/service or earlier.
- Clearly indicate on the invoice when payment is due. Customers will delay payment as long as they can. It's your job to let them know that slow payment is a problem.
- Send self-addressed, stamped, remittance envelopes with your invoices to save your customer time and effort in paying you.
- Charge interest for slow payment. Of course, you might alienate customers by doing this, so choose wisely. However, you should at least maintain it as an option and include an interest provision in your terms and conditions. If you ultimately go to court for nonpayment, you'll want the ability to recover interest.
- Promptly deposit checks. Also, if your business processes hundreds of checks per day, consider "remote deposit" with your bank, where you simply scan the check and the deposit is automatically transferred to the bank without anyone leaving your office.
- Accept credit cards. Although there are associated fees, you get paid much more quickly.
- Sell old inventory at a discount for a quick cash influx and to minimize holding costs.

Second only to getting paid up front, the next most important cash-flow tactic is to minimize bad debts by avoiding them in the first place. Fortunately, all it takes is a little diligence.

- Run credit checks on new clients and call several business references.
- Closely monitor accounts receivable and don't allow small problems to turn into huge problems. Require slow payers to pay up front in the future.

- Refuse future orders when bills remain unpaid.
- At a minimum, establish payment plans for slow payers – small payments are better than no payments.
- Whether in-house or outsourced, establish collection procedures and stick to them. You're not a bank – don't let customers treat you like one by giving themselves loans with your receivables.

## Cash Outflows

Just as you want to get paid quickly when you're the creditor, you want to pay slowly when you're the debtor. Obviously, you don't want to be excessively slow and damage either your credibility or your relationship with your creditor, but there are some small and reasonable approaches that can have a big effect.

- If payment terms are 30 days, don't pay the bill before that, unless you're offered terms of 2/10, net 30 (see above) or similar.
- If you have subcontractors or vendors, try to pay them only after you've been paid by the client. This may require some negotiation on your part.
- Use electronic funds transfer to pay at the latest time, without worrying about a check getting lost in the mail.

As good as it is to maximize the amount of cash coming in the door, it's equally good to minimize the amount going out. Although there are dozens of tips available for reducing costs in the office, such as using recycled toner cartridges for the printers, there are some key tips to reduce expenses from a cash-flow perspective:

- When choosing vendors, understand that sometimes better payment terms and discounts are better than a lower price.
- Minimize inventory and adopt just-in-time practices. Every day that an item

sits on your shelf costs you money. Conversely, if your inventory is short and you have to incur shipping fees and other higher costs to meet a customer's need, that will also sap your cash. Analyze your inventory to find the optimal level.

- In addition to looking at profit margin when choosing which products/services to sell, remember to look at turnover – how quickly you can sell those items and get paid. Some high-profit items might take six months to get paid, which can be the death knell for many companies. But a slightly lower margin product might yield much quicker payment.
- Analyze credit-card processing fees. That industry is very complicated, with dozens of hidden and hard-to-understand fees. Bottom line: divide your total credit card expenses by your total credit card sales. If the amount exceeds 3.5%, you're probably paying too much.


Finally, one of the most important tactics to guard against cash-flow troubles is to be prepared for surprises. What if the IRS audits you and demands \$80,000 in back taxes and penalties, could you pay it? What if your low-cost supplier goes out of business and you must switch to one with 20% higher costs? You will likely face a cash shortage during the time it takes to adjust your own prices to accommodate the increase.

- Build a cushion of accessible cash.
- Establish a line of credit.
- By all means, when you find yourself in a cash crunch, stay in touch with your vendors and subcontractors. Explain what's happening, tell them you're focused on getting them paid, and advise them when you will be able to pay. Suppliers will rarely take you to collections if you maintain open communication.

Duane Carey is President of IMPACT Marketing & Public Relations in Columbia, Maryland. He was a consulting hydrogeologist for 11 years prior to launching a marketing consulting firm in 2003. He earned his MBA at Johns Hopkins University (JHU), and is a Certified Professional Geologist (#10305) and past President of the Capitol Section of AIPG. In late 2005, he took over the helm of IMPACT, which was founded in 1990 by one of his professors at JHU. He can be reached at 410-312-0081 or [duane@MilkYourMarketing.com](mailto:duane@MilkYourMarketing.com)



**Geo** GeoScience Data Management Proudly Presents  
**An Introduction to Landslides or Mass Wasting**  
**An Online Course**  
 AIPG Accredited (3.5 CEU's)



- > Landslides classification
- > Soil mechanics principles
- > Strength of earth materials
- > Geologic influences
- > Case histories
- > Factors influencing mass wasting
- > Control & prevention of mass wasting problems
- > Slope stability analysis

For more information, contact [rgfont@geosciencedm.com](mailto:rgfont@geosciencedm.com), [slbishop@geosciencedm.com](mailto:slbishop@geosciencedm.com), or visit our website at: [www.geodm.com](http://www.geodm.com) or [www.aipg.org](http://www.aipg.org) Robert Font, Ph.D., CPG, PG, EurGeol - Author


**Practical Petroleum Geoscience**  
 For Novice AND Experienced Oil-Finders!  
 by Robert Font, Ph.D., CPG, PG, EurGeol

**Deepen Your Understanding of Your Industry**

**700+ PowerPoint Slides delivered to You Over the Net**

AIPG Accredited (8 CEU's)

another course offering from:



**Geo** GeoScience Data Mgmt. *for more information, contact*  
[rgfont@geosciencedm.com](mailto:rgfont@geosciencedm.com)  
[slbishop@geosciencedm.com](mailto:slbishop@geosciencedm.com)  
[www.geodm.com](http://www.geodm.com) or  
[www.aipg.org](http://www.aipg.org)