

Five Ways to Prime the Pump to Improve Cash Flow



With any small business, cash is king, and keeping ready cash available to cover expenses and payroll can be an ongoing challenge. You want to pay your suppliers and contractors in a timely fashion, plus you have fixed expenses like rent and utilities, taxes, and payroll that can't be late. However, that doesn't mean your customers have to respect your need to be paid promptly, and no matter what terms you put in your contract, some customers will leave you waiting 60 days, 90 days, or longer before they pay their bills.

However, there are proactive steps you can take to improve cash flow. There are basic steps, such as collecting your accounts receivables and reducing costs. Here are five more advanced tactics that you can try suggested by Australian entrepreneur [Brad Sugars](#):

1. Understand expenses and profits. Some small businesses try to attract new customers and business with coupons and discounts to increase cash flow. This can be a real mistake, particularly if you don't have a firm handle on your P&L. Know what your costs are, what you should charge, and [where is your break even](#).

Consider the case of [Seattle coffee shop Posies](#) who used Groupon to offer a \$13 promotion for \$6. The deal was too good to pass up, and over 1,000 customers cashed in the coupon. After giving Groupon their split, which meant Posies was collecting \$3 for a \$13 retail item. The idea was customers would use the coupon in addition to other purchases, but it didn't work that way and resulted in a disastrous loss for the coffee shop. If you try to sell something for less than it costs you, you will never make it up on volume, and any new customers won't offset negative cash flow.

2. Bundle products and services. You don't have to discount if you can add value. If you can create bundles that don't have immediate costs but increase perceived value, you can charge more and improve cash flow. Consider the maintenance agreements many car manufacturers are offering. They allay consumer fears and offer real value to customers, but at minimal risk to the

dealer. Find ways to improve the value of your products without adding costs.

3. Create a back-end product or service. Find ways to build a bump in your contracts so you get paid more for additional services or when things go awry. For example, the first X number of hours of consulting work is for a fixed price, and there is a premium price for additional hours. Or you can offer free setup or initial product installation, with additional fees for service later.

4. Create repeat business. Business development is a big overhead for many operations, so if you can create repeat business it will ease cash flow. In retail, for example, repeat shoppers are gold, since you may not see profit from a customer until the fourth or fifth transaction. Try loyalty programs, VIP offers, frequent buyer programs, and other incentives to bring back customers. Free goods and services can be useful if you make sure giveaways don't affect profits, e.g. give away low-cost goods and services or loss-leaders.

5. Pre-sell and offer cash discounts. To encourage sales sooner, offer advance purchases or discounts for cash payments. If you can convince a customer to purchase something they may need later now, then it puts the cash immediately in your pocket.

Maintaining positive cash flow can require some flexibility and creativity, but if you can find one or two techniques that can increase the amount of money flowing into your business, it could save you in tough times.