



## How to Boost Your Business' Cash Flow

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“Cash is king!” It’s an old business axiom that almost sounds cliché today, but you know what? It’s absolutely true.

Most business executives focus heavily on sales and profits, and rightly so. Any company that doesn’t generate revenue and turn a profit won’t be in business for very long. But companies can usually survive periods of unprofitability, at least in the short term. They can’t, however, survive running out of money — because it takes cash to make payroll and keep the lights turned on. In fact, poor cash flow is the primary cause of most business failures today.

### Strengthen Your Cash Flow

With the economic recovery still proceeding in fits and starts, smart leaders are staying focused on strategies to keep their cash flow strong. Here are six ideas to consider:

**1. Tighten your cash flow cycle.** The goal is to speed up the movement of funds through your business from the time cash is paid out for equipment, raw materials, salaries, etc., until accounts receivable are collected from customers. There are two main ways to do this:

**Accelerate receivables** — Negotiate with customers to shorten the payment terms your company offers, or offer a prompt-payment discount (e.g., a 2-10, net 30 discount). And be sure you’re enforcing your existing terms. And move fast when it comes to collecting past-due accounts, since the odds of collecting these funds go down considerably the longer late payments stretch out.

**Defer payables** — On the flip side, be sure you’re taking advantage of the payment terms your suppliers offer. Net-30 day terms, for example, are essentially the same thing as an interest-free 30-day loan. Set up your accounts payable system so that invoices are paid on the due date, and not a day earlier (or later).

**2. Create an A/R aging report.** This is the best way to get a clear picture of the payment status of all your customers. For example, it will show you at a glance which customers are current in their payments, which ones are past due and how late their payments are, and how much these customers owe. This way, you can concentrate on collecting the highest dollar amounts from the customers who are most likely to pay you the fastest.

**3. Reduce operating costs and cut overhead.** “A penny saved is a penny earned” is another old cliché that also happens to be very true. Money saved through careful expense management not only frees up cash flow, but it also drops straight to the bottom line. Can you streamline and/or automate manual procedures? Redesign processes to maximize efficiency? Reduce waste by scrutinizing routine expenses like your office telecommunications, Internet access and wireless bills?

**4. Talk to your bank.** Banks offer a wide range of products and services that can help strengthen your cash flow, including lockbox and remote deposit capture (RDC). These services accelerate funds availability by getting checks and receivables deposited into your business checking account faster. With lockbox, your customers' payments are mailed directly to a bank post office box for immediate processing. With RDC, checks can be deposited directly from your office using a special scanner and software provided by your bank.

**5. Improve inventory management.** Excess inventory represents a huge expense for many companies that can literally suck cash right out of the business. Scrutinize your inventory carefully and purge slow-moving items by offering them for sale at a deep discount, if necessary. With regard to raw materials, use just-in-time (JIT) inventory management techniques so that they are delivered to your warehouse just when you need them, rather than weeks early.

**6. Lease, rather than purchase, big-ticket equipment.** Equipment leasing offers a host of advantages, including protection against obsolescence and tax benefits in certain situations. And it frees up money that would be used to buy big-ticket items like computers, telecommunications systems, vehicles and heavy equipment to provide an immediate boost to your cash flow.

### **Concluding Thoughts**

It's never a bad time for Los Angeles and Southern California executives to focus on boosting cash flow. Sales and profits are important, but more companies fail due to a lack of cash flow than a lack of sales or profits. An outsourced CFO services provider can take an objective look at your company's collection efforts, payment practices, expenses and overhead, and inventory management to help devise strategies that will free up funds and improve cash flow.

### **About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 626.683.8840.

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