5 Innovative Ways to Increase Small Business Cash Flow

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If you are a small business owner like me, increasing cash flow is practically the center of our professional lives. Although it is crucial for any business, it is especially important for small business owners because we are in business for, and depend on ourselves, as well as our loyal customers. We know that cash flow is critical to the success and survival of our businesses.

It is important to remember that cash flow isn't profit, and profit isn't cash flow. Indeed, we can all have tons of profit but no cash sitting in our bank accounts. While sales are the muscles of your business, cash flow is the lifeblood. That said; it is also entirely possible to improve cashflow without increasing sales. As a small business owner, sales may be hard to come by, but that doesn't mean your cash flow won't improve.

Strategies to Increase Small Business Cash Flow:

1. Decrease the time it takes to collect client payment

Known as "days sales outstanding" in the business world, DSO is the amount of time it takes to collect payment from your clients. Once your service or product has been delivered successfully, it is time for your customers to pay up. Look over your financial information and pay special attention to DSO. See how long sales are outstanding, and then try to decrease that amount for future sales by a quarter. Instead of giving clients 20 days to pay, next time, only give 15. Don't forget to start this strategy with new clients while allowing your current ones to finish their agreed-upon time.

2. Shift costs from fixed to variable

Evaluate your business costs to see if it fits in a variable or fixed cost category. In order to increase cash flow but not sales, it is essential for your business to try to shift some costs from fixed to variable. Take time to evaluate all of your business expenses with care and begin to identify costs that you can move from fixed to variable. Ideally, you will want to tie payments to key performance metrics that align with the timing that the business actually receives a payment.

3. Sell old or excess equipment

Chances are that your company has some equipment that is lying around collecting dust and costing you money. Instead of sitting in storage, that equipment could be making you money! Check out your inventory and decide what can stay and what you can sacrifice. If you haven't touched it in a long time, now may be the perfect time to say goodbye. If you don't think you will use it in the next 12 months, consider selling it and investing the cash in something more useful.

4. Collect deposits and process payments quickly

When creating customer agreements, structure them so you can collect payments upon the completion of work. Alternatively, require a larger deposit at the start of the job so you have available cash for the duration of the process. Be sure to send out invoices immediately to avoid waiting for incoming receivables. If you are late to send an invoice, the fault is entirely yours. Customers may be late at paying anyway, so if you are slow to send the bill in the first place, you may end up months behind on collecting receivables.

5. Conduct a credit check

If a client doesn’t want to pay cash, be sure to run a personal credit check, which may cost about $20. This is your way to ensure that the customer has a trustworthy credit history and most likely will follow through on payments. If a poor credit report comes back, stand your ground; refuse to make the sale. If you decide to work with someone with a poor payment history, you can rest assured that your payments will be consistently late, meaning your cash flow will suffer.