

Tips for Small Business to Manage a Cash Flow Challenge

In times of economic uncertainty, managing cash flow can make the most difference in how businesses navigate of rough water. Consider these tips when deploying your cash and weathering a short-term economic storm.

1. **Ask the right people for financial advice** – Now is the time to have a strong relationship with your financial institution. Be proactive and contact the relationship manager at your bank to let them know of your potential cash flow challenges. Perhaps the bank may offer to defer two or three months of loan payments. This is not to sound the alarm, but simply to keep the communication with your bank proactive. If declared a disaster area, consider the [SBA's low-interest Economic Injury Disaster Loans](#).
2. **Accelerate collections** – Get on the phone and call customers to check on payments that are overdue or due soon. You may be able to ask for early payment as a favor. For older accounts receivable, offer to forgive 15% of their overdue balance if they pay within the week. This may encourage them to respond and it's less costly than hiring a collection agency to go after receivables you may never see.
3. **Invoice early** - No more sending invoices out a week late. If you average \$7,000 a week in receipts, the net effect is that you have \$7,000 less to work with. If you take 10 days to send out the invoices, it's the same as if you need another \$10,000 in working capital to run your business.
4. **Invoice more frequently** - If you bill customers for time, consider billing twice a month instead of once. Billing promptly on the 1st and 15th of the month speeds up immediate cash flow.
5. **Analyze payments** -- Make a list of all payments due for the next three months. Prioritize payroll and see what else you can negotiate to pay later. You may be able to negotiate with landlords and [utility providers](#). The key is honest communication.
6. **Offer discounts** - This invoicing carrot can speed collections, but make sure that you understand how much it is costing you. Some large companies have policies in place that require speeding payments to earn discounts, e.g., 2% for paying within 10 days. Be careful with this one. Suddenly offering a 5% discount for payment in 10 days could send out the wrong signal.
7. **Ask for some payment upfront** - Instead of just billing for time as it is incurred, ask for a third upfront, a third while the job is in-progress, and a third upon completion.
8. **Fine-tune the timing of your payables** - Take advantage of the maximum allowable time (60 to 90 days) to pay suppliers. Picture it as an interest-free line of credit that gives you more time to collect accounts receivable without spending money on short-term credit lines. If your payroll withholding taxes total less than \$50,000 per year, remit the withholding on the 15th of the following month, instead of three days after payday.