

Ask SCORE

I own a small, successful architectural firm and, despite the economy, we've got a decent backlog of work. However, for the first time in our history, cash is a problem. What can I do to improve cash flow?

Just as watching your blood pressure is important to your personal health, monitoring cash flow is vital to the well-being of your business. Minor “hiccups” may be expected, but they can also be an early warning of bigger, potentially chronic problems ahead, especially if other indicators such as sales seem positive.

Though critically important, monitoring and predicting cash flow is actually a matter of consistently following some simple, common-sense financial management practices.

The object is to make certain that more cash enters your business than exits your bank account. First you need to translate sales into real money as quickly as possible. Once you've collected the cash, your business needs to guard it. Surprises, such as slow or non-paying customers and unexpected expenses, are your worst cash flow enemies.

One way to shift cash your way is to ask for all or a portion of payment up front. Asking for at least a deposit in advance is a great way to jump-start your cash flow. And if you establish the policy fairly and properly, it shouldn't alienate good customers.

Accepting credit card payments also can help, so you may want to sign up for a merchant account that allows you to do this. Or, if you already have one, encourage customers to use this option more often. You do pay a fee for this. But credit cards are a great way to speed cash into your account, and the cost is generally small.

You may need to manage “receivables” more closely. This is the money that customers owe to you for products or services you've delivered. Create a detailed “aging” schedule of what you are owed, by whom and for how long. Place phone calls to overdue accounts, focusing first on the largest amounts due. Offering a discount can bring some quick cash in the door, but play this card only after you've called the customer to ask for full payment.

Finally, don't overlook the power of an operating budget. Note specific due dates for payables as well as receivables, and regularly use it to get a “snapshot” of your cash flow status. With that information, you'll be better able to make short- and long-term plans, spot potential problems, and avoid potentially crippling cash crises.

This column is brought to you by the Southern New Hampshire Chapter of SCORE, with more than 65 current and former business executives available to provide free, confidential, one-on-one business counseling and training workshops for area businesses. Call 603-666-7561 or visit www.score-manchester.org for information on counseling, upcoming workshops and volunteer opportunities. SCORE is a national, non-profit organization and a resource partner of the U. S. Small Business Administration.

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