CLOSE THE CASH FLOW GAP
5 STEPS TO SHORTEN YOUR CASH FLOW CONVERSION PERIOD

http://sbinfocanada.about.com/cs/management/qt/cashflowgap.htm

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A cash flow gap occurs when your cash inflows and cash outflows don't keep pace with each other, leaving your business short of cash.

This is an especially common problem for small businesses, where copious cash outflows may repeatedly preceed cash inflows; all kinds of expenses, from purchasing materials necessary to do the work through licensing or permit fees, may have to be paid out before your small business gets paid for the work completed.

How do you close this cash flow gap and keep your business solvent?

Keep a close eye on your cash flow, so you can forecast potential cash flow problems and take steps to remedy them. One of the easiest ways to monitor your business' cash flow is to compare the total unpaid purchases to the total sales due at the end of each month. If the total unpaid purchases are greater than the total sales due, you'll need to spend more cash than you receive in the next month, indicating a potential cash flow problem.

Take steps to shorten your cash flow conversion period, so your business can bring in money faster. These steps may include:

1) Preparing customer invoices immediately upon delivery of your goods or services to the customer. If you wait to prepare your invoices at the end of the month, for example, you may be adding as many as 30 extra days to your cash flow conversion period!

2) Monitoring your customers' use of credit and adjusting their credit limits accordingly.

3) Offering customers a discount for paying their invoices early. For instance, if your usual policy is to have payments due in 30 days, offer a small discount such as 2 percent to customers who pay within 14 days.

4) Establishing a deposit policy for works in progress. For example, if you deliver a service, such as software development, home repair, or landscaping, you can adopt a policy that customers pay a certain percentage of the total invoice up front before the job begins.

5) Tracking your past-due accounts and actively pursuing collections. Most accounting software programs let you easily track past-due accounts, but you also need to have a clear process for pursuing collections. Such a process might involve sending out a series of letters letting your customer know that his or her account is past due and what steps will follow if he or she does not pay, such as turning the account over to a collection agency.

You have to have money coming in regularly to maintain an adequate cash flow for your business, not just endlessly streaming out. Monitoring your cash flow and taking steps to shorten your cash flow conversion period will go a long ways towards eliminating those dangerous cash flow gaps.