



## Cash-Flow Plumbing – Fix the Leaks

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Aug. 18, 2011

Why do you fix a leaky faucet at home? Because for most of us we realize it's money down the drain.

The same goes for a business, but unlike the constant dripping sound we hear at home, most business owners are not aware of their cash-flow leaks that can be costing thousands of dollars. Leaks are not only missed opportunities for cost savings but also missed opportunities to speed up your inflow or slow down your outflow of cash – the hidden costs of cash flow leaks.

### **Here are a few suggestions to speed up cash inflow:**

**Squeak the Wheel** – Call promptly when accounts go past due. I know this sounds obvious but many businesses have 30 days term but call at 60 days. If I'm a customer, you just trained me to pay in 60 days and I'm in good standing. That's a 30-day cost of funds leak!

**Take [Credit Cards as Payment](#)** – Offer payment online or by [credit card](#). Oh boy, I can hear some of you saying, "Oh yeah right, give away 3 percent in credit card fees, you must be crazy!" Okay, you do the math, \$100 sale, \$3 cost. Consider cost of [invoicing](#) and mailing, time in mail to customer, customer opens mail, inputs payable, waits to pay, waits some more to pay, waits some more for you to call (see above), mail time to get check back to you, you have to open and record payment, create bank deposit, go to bank and wait for check to clear (you hope it clears). Now compare that process to authorizing a credit card number (over the phone in some instances) and having spendable funds in two days versus the 30- to 60-day people-intense process described above. Which one looks cheaper now?

**Invoice as Quick as Possible** – If you believe the old adage "time is money" then you understand this point. Accounts payable departments are payment machines that process and issue payments on a set schedule. That schedule may be once a month, twice a month or once a week. If you miss the cutoff you have to wait till the next cycle. The faster, or more frequent, you submit invoices the better chance you will hit a cycle and be paid quicker.



**How about a few suggestions for slowing cash out-flow:**

**Use a Company Credit Card for All Small Purchases** – Save time and money by letting the credit card company roll up all your small purchases into one easy monthly payment. Forget recording separate invoices and separate payments to the office supply company, bottled water company or your maintenance service company. You also get 30 days to pay the credit card company, which in some cases are better terms than some vendors offer

**Set up Auto-Payment for Monthly Reoccurring Payments** – It's easy, saves processing costs, ensures you're never late on a payment, and with online banking you can view all activities on a daily basis. No need to fumble with payment coupons, postage, mailing issues, just match up invoices to payments online and record in your checkbook.

**Take Those Purchase Discounts** – When a supplier offers you a purchase discount such as a 2 percent discount if paid within 10 days, in essence they are offering you a 36 percent annualized discount. ( $360 \text{ days} / 20 \text{ days saved} = 18 \times 2\% = 36\%$ ). You have to be crazy to miss this opportunity. And if your suppliers don't offer discounts, why not ask for them?

Make it a habit to look at plugging those cash flow leaks of excessive processing or lost opportunities so cash flows smoothly through your organization.

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