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Liquidity as a Strategy: Keep Cash Flowing

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Introduction

Many businesses face the challenge of tight cash flow. Oftentimes, such problems can emerge even if your business is doing well. Depending on your revenue model, a promised big payday ahead may not help solve cash flow issues in the present. Seasonality and other external factors, like overdue accounts, can further complicate matters.

Liquidity is an ideal that businesses strive for but often find difficult to achieve. It is important to be financially prepared for events such as an unexpected expense (like equipment repair) or upcoming payroll.

Fortunately, there are many strategies that owners can take to increase cash flow in a business, whether that is renegotiating vendor contracts or an asset-based loan. The help of an experienced bank can help you find the right product for your cash flow needs.

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Obtain a line of credit

A credit line is useful because it allows the business to meet diverse spending needs. For instance, you may want to keep a line of credit open for travel expenses or as a source of working capital when expanding business.

A banking credit line could offer a flexible financing solution that may help increase cash flow. However, one thing to be particularly aware of is interest rates and at what point that interest needs to be paid. The rates you are quoted will depend on your personal credit and payment history, as well as that of the business. Also, be aware of whether you pay interest on the entire line or only withdrawn amounts.

In any case, a line of credit or a business credit card could be a versatile tool for improving liquidity and supporting operations.

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Consider leasing equipment instead of purchasing

Many businesses depend on their equipment, whether they are a craft brewery with intricate pipework or a package delivery service with a fleet. However, the upfront cost of purchasing equipment/vehicles can be a big cash flow obstacle for businesses.

One strategy for improving liquidity is leasing, which can spread out the financial commitment, among other benefits. Leasing is a highly effective strategy for businesses in manufacturing, transportation, supply chain, logistics and service industries. You can even lease an aircraft for business travel without breaking the budget.

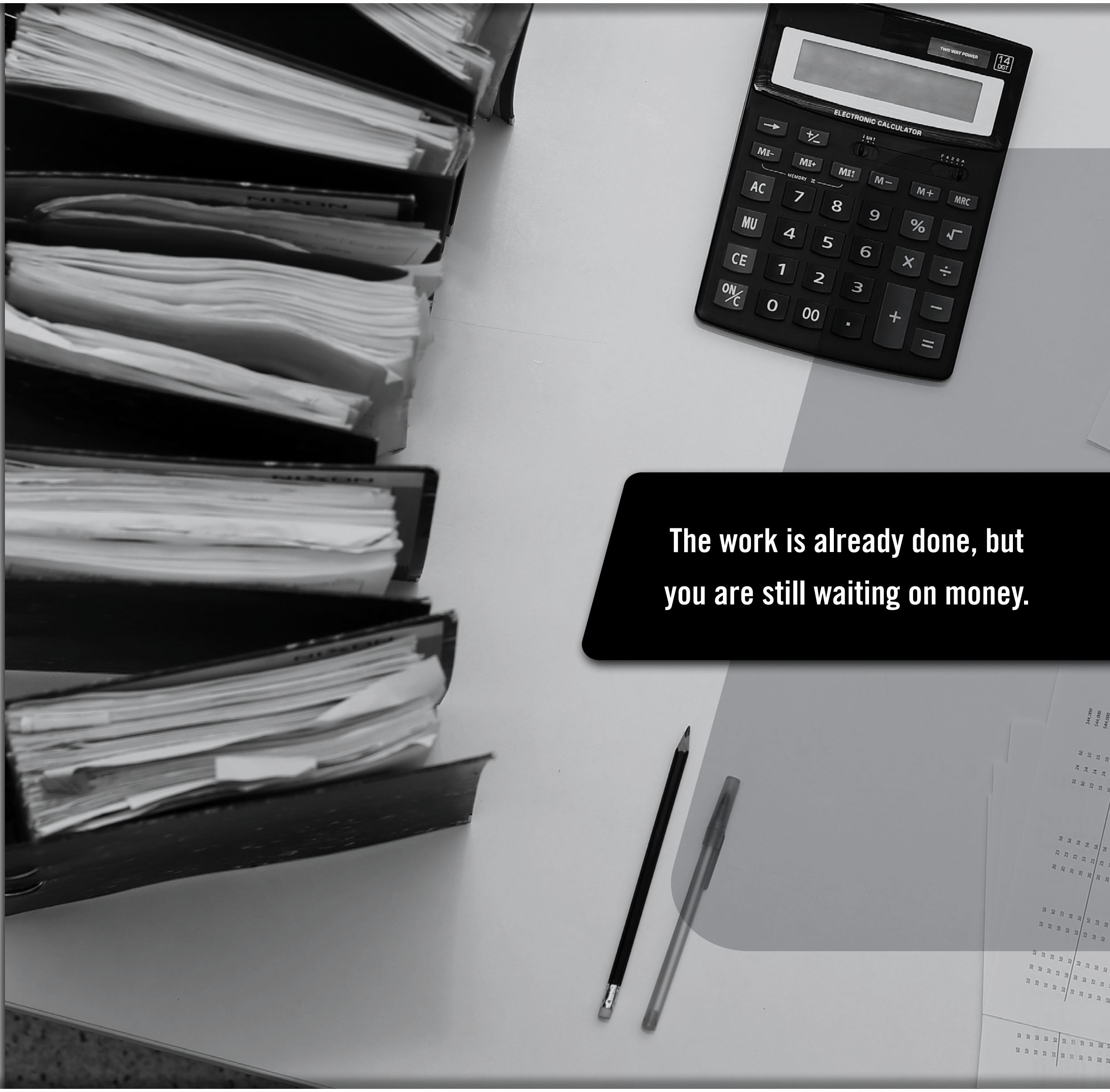
Interested businesses should think critically about the right lender and terms for them. Some things to consider include 100% financing, tax-planning and total costs. Also be sure to structure the payments in a way that is conducive to your cash flow.

Improve your billing processes

A long accounts receivable list can become a burden on your business cash flow. The work is already done, but you are still waiting on money. While you may want to grant your clients some leniency in making large payments, it should not come at the expense of positive cash flow.

In any case, it is crucial to have strong billing infrastructure and processes. Without them, your revenue generation may be left to the mercy of late-paying clients. To start with:

- Send invoices immediately after work is completed. Even if the due date is scheduled a month out, be sure to provide documentation right away.
- Set up an outreach schedule to remind clients of upcoming or missed payments.
- Establish protocols for escalating efforts up to collections.



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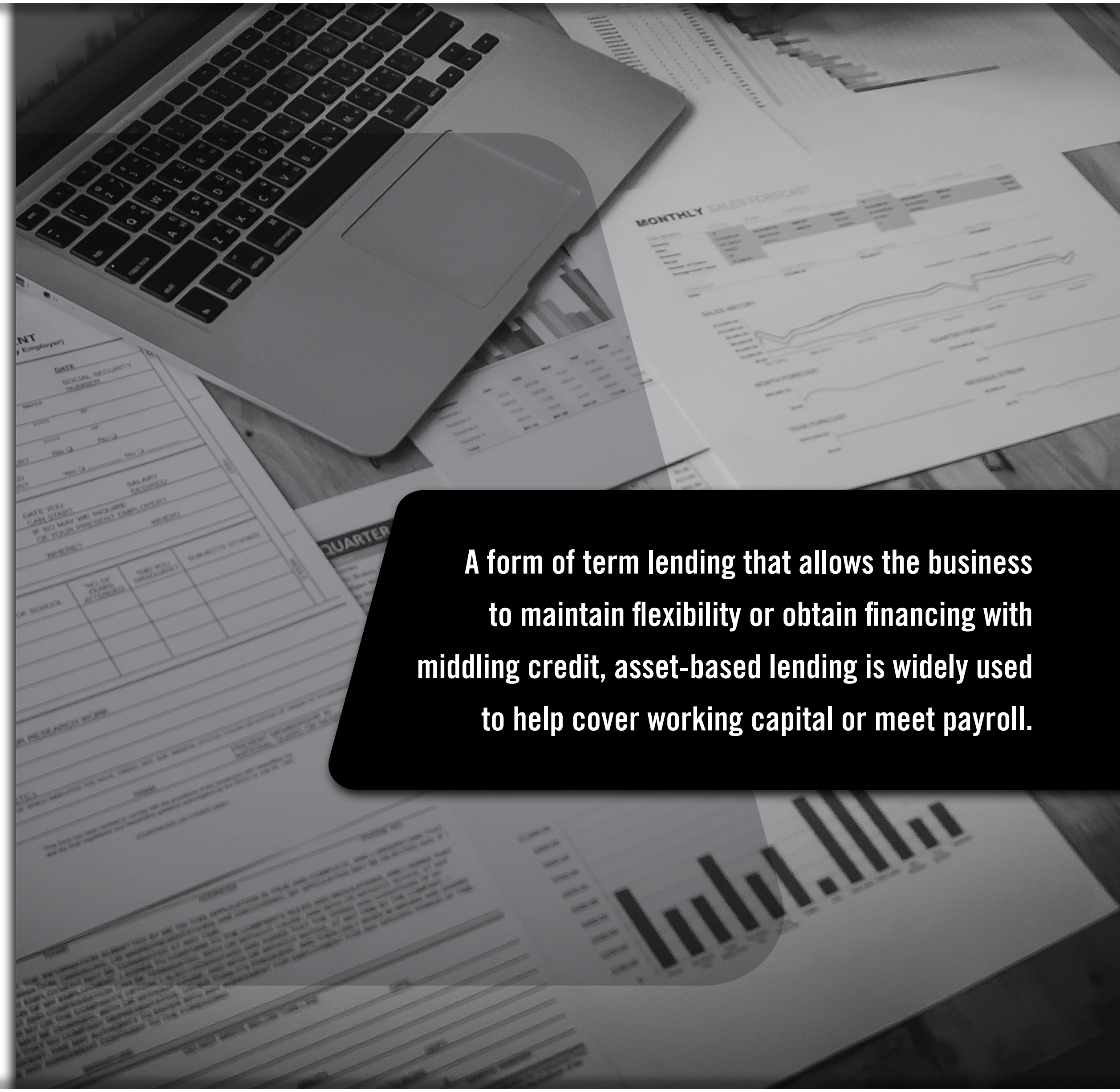
Take out an asset-based loan

Many businesses that may be cash poor are actually rich in many other ways. Assets abound in business, including equipment, inventory and accounts. All these asset types, plus other owned property, can be used as collateral in securing an asset-based loan that can help improve cash flow in business.

A form of term lending that allows the business to maintain flexibility or obtain financing with middling credit, asset-based lending is widely used to help cover working capital or meet payroll.

However, pay attention to the terms and conditions of repayment, since your inventory, equipment or accounts may be sought as recourse for unpaid loans.



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Conclusion

While cash flow problems can seem impossible to get out of, they can be managed and mitigated with planning. Watching inflows and outflows can help spot an issue before it becomes a cash crisis. Having other forms of financing at the ready (like a business credit card) could help you meet obligations and continue operations.

When looking for other solutions to managing cash flow, consider talking to Comerica Bank. As the Leading Bank for Business* with decades of experience, we understand the financing needs of all business sizes and have the banking and lending products to match.

Interested in a business line of credit or other solution to improve cash flow? Reach out today for more information.

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*Comerica ranks first nationally among the top 25 U.S. financial holding companies, based on commercial and industrial loans outstanding as a percentage of assets, as of September 30, 2019. Data provided by S&P Global Market Intelligence.