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*Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.*

## Five Steps to Avoid a Cash Flow Gap

Around this time of year, the only Gap you may be thinking of is one that has Lenny Kravitz and Sarah Jessica Parker as spokes people. But, the one in your business could be the one that is nagging at you to pay closer attention. A cash flow gap occurs when your cash inflows and cash outflows aren't in sync with each other. The result is ugly – it leaves your business short of cash.

All kinds of businesses are at risk for cash outflows that outpace cash inflows. Manufacturers, auto dealers, professional services, virtually any kind of small or mid-sized business could be at risk for outlaying cash prior to invoicing for work performed or products delivered.

So what's the solution? A hefty line of credit from Ol' St. Nick? Not so fast!

Perhaps the easiest way to close the gap is to simply become aware of it. In one dealership, for example, customers paid the dealership for a particular service when they bought a car, but the dealership's processes called for actually cashing the checks for this service only on the 15th and the 30th. What did this mean? A big gap between outflows and inflows for the dealership since this was a pass-through expense for the dealership.

Here are a few more examples of how you can pull your belt a little tighter this holiday season (and beyond!):

1. **Immediately prepare and send invoices.** If you wait to send invoices until the beginning of the month, your invoices may be lagging your payables by as much as 30 days in some instances – or more.

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- 2. Establish a way to invoice for products/services in progress.** For designers, consultants and others who work on projects that often take months to complete, consider billing 50 percent up front and the rest upon completion. This allows you to pay for any out-of-pocket expenditures and keeps you out of the gap. The same goes for other projects that are taking way too long to complete, begin by sending progress billings to urge clients to complete projects in a more timely manner.
- 3. Offer customers a discount for paying invoices early.** If cash flow is a real problem and you rely heavily on your line of credit, consider offering clients a discount for paying early – perhaps 1.5 percent or 2 percent for paying in 14 days versus 30 days. It all adds up over time.
- 4. Track past due accounts and actively pursue collections.** It isn't the most pleasant thing to do, but it's part of business and it's not personal. This is a task that must be put on a system and managed. You must attend to past due accounts consistently or the companies will not take your company seriously. Utilize your accounting software and collection letters available through those software programs to manage these past due accounts. If you have a high number of past due accounts, consider revising your credit policy.

If the cash flow gap has you down, give us a call. We can provide strategies and systems that will put more green back in your pocket this holiday season and beyond. ■