

7 Strategies for Surviving a Cash Flow Crisis

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According to Business Insider, [82%](#) of businesses fail due to cash flow problems. A cash flow shortage happens when more money is flowing out of a business than is flowing in to the business. That means, during a cash flow shortage, you might not have enough money cover payroll or other operating expenses.

When business leaders have no strategy or plan in place for handling a cash flow shortage, a cash flow crisis occurs. In the event of a cash flow crisis, you need to be ready to take action to save your business from an untimely demise.

TAKE THESE 7 STEPS IN THE EVENT OF A CASH FLOW CRISIS

1. Adjust Your Business Plan to Improve Profit Margins

Encountering a cash flow shortage should lead you to closely inspect your business plan, processes, operations and expenses. You need to determine why you encountered a cash flow shortage, whether it will be a recurring problem and you will also need to put a plan in place to handle future shortages.

Use [job costing](#) to look at your business's profit and loss statements and profit margins based on individual categories within your company (jobs, clients, employees, events, marketing strategies, products and services) to determine which areas of your business are the most and least profitable. This will help you adjust your business plan to focus on services that generate the most profit, let go of clients who might be costing you more money than you realize, optimize your pricing structure and also identify areas of waste or unnecessary expense to remove from your operations.

2. Accelerate Your Receivables

Take a page out of [Tesla's](#) cash-flow-crisis-playbook and speed up your receivables. The quicker money begins flowing into your business, the sooner your cash flow problems will be solved. Tesla sped up their receivables by offering and accepting pre-orders for a product before it hit production, but you can use other strategies to accelerate receivables:

- **Ask new customers for a deposit or partial payment** up-front, rather than billing the entire amount due in a single invoice after services have been rendered or products have been delivered.
- **Start sending your invoices early.** Adjust the management of your receivables to invoice clients immediately following the delivery of products or services, rather than sending out all invoices on a particular day of the month. The sooner you send an invoice, the sooner you will receive payment.
- **Send invoices more frequently.** Instead of waiting for the full completion of a job to send an invoice, generate invoices every week or every two weeks to cover the services delivered up to that point.
- **Focus on your past due accounts.** Scour your accounts receivable for past due clients and start making phone calls. You can ask past due clients for partial payments; in a cash flow crisis every cent counts.
- **Make it convenient for clients to pay** by offering additional methods of payment, such as credit card or [mobile and electronic](#) payment options.

3. Negotiate Your Payables

If you can delay or reduce the amount of cash flowing out of your company during a cash flow crisis, it will help reduce the strain on your working capital. Be honest with your vendors to negotiate payments or to inquire about

delaying payments. Although some might be unwilling to budge, odds are vendors to whom you have been loyal will be flexible and willing to work with you during a tight situation. You will also likely be able to get some leeway or perhaps even a reduced obligation from your utility providers.

4. Consider Borrowing Options

Cash flow shortages occur when more money flows out of your company than into your company. One way to solve the problem is to find a way to bring money into the business. You can do this with a business loan or a credit card advance. Before you take on business debt, however, be sure you understand the interest rates and have considered all other options and are not making a decision that will simply kick the problem down the road to be addressed at a later date.

If your business has an intrinsic problem causing your cash flow crisis, then taking on debt will only put a band-aid on the problem and make the problem worse in the future.

5. Raise Investor Capital

Another way to quickly increase your business's working capital (and also to bring in a new business partner) is to sell equity. Like taking on debt, however, be sure you truly want or need to sell a piece of ownership in your business to solve a cash flow crisis. Also be careful regarding the type of [investors](#) to whom you decide to sell and with whom you choose to partner. Do not let the pressure of a cash flow crisis lead you to make poor decisions for the future of your business.

6. Slash Expenses

As a rule of thumb in business, you should always scrutinize every single penny that leaves your bank account, but you will need to be especially critical of spending during a cash flow crisis. During a cash flow shortage, you must prioritize your company's expenses. Eliminate all unnecessary expenses and only spend on the costs that keep you operational and generate revenue.

7. Sell Non-Essential Assets

In addition to cutting non-essential expenses, in a cash flow crisis you can also off-load non-essential business assets. Although this is a temporary fix, as you can only sell an unnecessary item once, it is an effective and quick way to raise some cash when you are in a bind.

TWO BEST PRACTICES TO FOLLOW AT ALL TIMES IN YOUR BUSINESS FOR BETTER CASH FLOW

1. Prepare

In the event of a cash flow crisis, you will need a plan and you will also need accurate and up-to-date financial statements (income statements, balance sheets and cash flow statements).

Maintain your financial statements on a regular basis to ensure you always have a bead on the financial state of your company.

2. Prevent

"An ounce of prevention is worth a pound of treatment." This saying applies to financial strategy, as well as healthcare.

Take steps to actively prevent cash flow shortages, such as cash flow forecasting, monitoring key performance indicators, using management accounting and tightening up your business operations.

IMPROVE CASH FLOW AND PREVENT SHORTAGES WITH MANAGEMENT ACCOUNTING

Management accounting focuses on using your business's financial reports to forecast cash flow, [improve cash flow](#) and completely avoid cash shortages. Monitoring and improving key performance indicators, such as your company's [days sales outstanding](#) and [profit margins](#), can help you avoid cash flow shortages altogether.

As experts in business bookkeeping and accounting, **GrowthForce helps its clients improve their cash flow management** by implementing smart bookkeeping and management accounting systems optimized to help business owners and CEOs make strategic – rather reflexive – business decisions.

With a smarter back office, you can fine-tune your business model, increase cash flow and improve profitability to get your business out of the financial weeds and elevate it to the next level.