



Ask SCORE for Business Advice

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Quick Cash for Businesses by Tina Dettman-Bielefeldt

As the year draws to a close, business owners want to get on solid footing so that they can start out 2010 right. If cash flow is an issue, Jim Fitzpatrick, CPA, retired business owner and SCORE counselor, has some suggestions. He presents the following five ideas:

GET CASH UP FRONT. Fitzpatrick said that businesses might speed payment by offering a cash discount if the customer pays prior to regular terms. For example, 2% 10 net 30 would give the customer a 2% discount for paying within 10 days. “If the customer normally pays in 30 days, you are in effect giving the customer a cash discount which equates to a 36% annual interest rate,” he noted. However, if the business has access to credit and is paying a market rate it is much less expensive to finance the 20-day difference.

COLLECT PAYMENT. “Every business should have defined steps related to collections,” Fitzpatrick noted. “I have never been defensive about collecting money for a product or service sold to a customer.” Policies should be communicated to all customers and followed no matter who the customer is. In most cases, if a customer always pays late, it is better if they buy from competitors.

TRY FACTORING. If the situation calls for it, Fitzpatrick says that a business can finance its accounts receivable at a discount by selling the receivables to a factoring company. The factoring company assumes the collection risk and provides the business with immediate cash. “The advantage is that the collection responsibility is with the factoring company and there is less working capital to finance. The downside is that factoring is quite expensive, normally a 5% discount plus other fees,” he noted.

SLOW YOUR PAYMENTS. Another way to free up cash is to slow or reduce your payments by contacting vendors, lenders and credit card companies to renegotiate rates, fees and repayment schedules. However, Fitzpatrick said that doing this is not without risk. He warned, “Good supplier relations are important and in many cases if you consistently pay slow, chances are good that either your prices will increase or you will be put on COD payment terms. If you must slow payments, communication with your supply base is critical. It is a fine line between leveraging your buying power and using your suppliers in place of a bank.”

BORROW FROM ALTERNATE SOURCES. Fitzpatrick says that most of his experience is will asset based lending which is particularly efficient when a business is trying to finance aggressive growth and has good asset management controls in place. The business pledges accounts receivable and inventory as collateral to support either a term loan or a revolving line of credit, and the bank usually requires a monthly collateral report that is subject to audit. Other sources of funds, all of which should be used cautiously, include borrowing from yourself, liquidating inventory, and selling equipment. However, those options should be seen as a last resort and used only if the business can be saved.

If you'd like to learn more, contact the Green Bay Chapter of SCORE. Visit www.greenbayscore.org or call Cindy Gokey at 920-496-8930 for information.

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