

# Tips for generating a cash surplus

In a new start-up, a cash surplus will give you breathing space if sales are not as high as you hoped, or expenses are higher than you thought.

Surplus cash can also be used for planning an expansion project to increase your capacity, pay a large bill, or buy new equipment. The most obvious way to create a cash surplus is by adding in more of your own capital, or taking out a loan. However, there are a number of other things you can do first.

## Improve efficiencies

**Before looking for external funding sources, can you free up cash from within your business?**

For example:

- ★ Offer customers a discount for early payment or ask them to pay immediately using online, mobile or credit card payment options. Talk to us about our [payment solutions](#) and how they can encourage immediate payment.
- ★ Sell underused assets or rent the equipment when you need it instead.
- ★ Downgrade or sell vehicles you own and lease back.
- ★ Reduce your drawings from the business until revenues improve.

**Do you have too much money tied up in inventory? You can free up internal cash by:**

- ★ Setting up 'just in time' inventory practices and only order items from suppliers on short notice.
- ★ Not stocking slow-moving items. Have a sale to get rid of obsolete inventory or raw materials.
- ★ Regularly reviewing your inventory levels, your inventory turnover rates, and your purchasing policies to make sure you're only carrying what you need.

## Limiting credit

You could consider not offering credit to keep the funds inside your business rather than locked up in accounts receivables. Think about accepting credit card payments to help you and your customers manage a positive cash flow.

If you supply goods over a period of time, or if you're a service business, invoice for agreed periodic progress payments. This is a common method of ensuring you get some cash flow during a project instead of waiting until the end to invoice – and then still waiting at least another 30 days for payment.

## Price increases

One of the best ways to get more cash coming into your business (especially over time) is to increase your prices. See where you can safely increase your price without causing a drop in demand.

## Prepayments and deposits

Ask customers to pre-pay or pay a deposit, especially if it's a large contract or order and have to pay for inventory in advance to complete the project or job. Set up a payment system that spreads out cash flow more evenly, such as switching clients to monthly payments or a subscription model.

## Using suppliers

Some suppliers may provide inventory or materials on consignment, or you can negotiate long term repayment plans. This will free up the cash you'd need to pay them, at least temporarily. If you are really stretched, you could ask suppliers to credit back anything you've bought by returning goods.

## Operational improvements

You can create better cash flow with continuous improvements such as:

- ★ Implement stricter credit control and better debt collection procedures.
- ★ Source less expensive materials or supplies.
- ★ Identify any increase in expenses and either renegotiate them or change providers/suppliers.
- ★ Only accept work you know you can complete profitably. Focus on work that provides the highest margin and start to say no to low margin work.
- ★ Conduct market research to find out why your cash is being squeezed and take appropriate action. For example, you may discover a new competitor has entered the market or that there's a common product fault or perception you didn't know about.

## Set up a regular savings plan

Finally, set up contributions into a business savings account. For example:

- ★ A percentage of sales every month
- ★ A percentage of surplus profit each quarter

Make sure the savings are sensible and not needed for the operation of the business. Many businesses do this to save for tax payments during the year.

## Summary

Every business is capable of squeezing extra cash from several areas, if you can think creatively and make cuts where necessary. Even if you do still need a business loan, it might not be as much as you initially anticipated if you can realize a cash surplus in other ways.



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