FINANCIAL FOUNDATIONS

An Educational Ebook Series for Small Business Owners

BOOK 09

How to Improve Cash Flow

Practical steps to strengthen cash flow and decision-making.

TLC Business Solutions · Expert Bookkeeping & Accounting Services

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How to Improve Cash Flow

FINANCIAL FOUNDATIONS

Chapter 10

How to Improve Cash Flow

Five practical levers — receivables, payables, inventory, reserves, and overhead — that release the cash already hiding inside your business and turn a tight bank balance into a confident, well-funded operation.

TLC BUSINESS SOLUTIONS

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SOURCE PAGE 02

How to Improve Cash Flow

CHAPTER GUIDE

In This Chapter

Knowing that cash flow matters is the first step. This chapter is the second: what to actually do about it. Inside are the five field-tested levers TLC Business Solutions uses to move a business from cash-anxious to cash-confident.

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How to Improve Cash Flow

SECTION 01

Practical Strategies for Better Cash Management

Improving cash flow is rarely one heroic move. It is five small, deliberate ones applied consistently — and each lever releases cash that is already hiding inside your business.

Most owners, when cash gets tight, look for a single fix: a bigger sale, a loan, a cost cut. Those help, but they treat the symptom. Real cash-flow improvement comes from working the five levers together — the same levers a healthy business pulls every week, not just in a crisis.

Inflow

Speed up the money coming *in* — invoice faster, collect sooner, encourage early payment.

Outflow

Slow down the money going *out* — time payments, negotiate terms, never pay early by accident.

Trapped

Free the cash already tied up in inventory, overhead, and quiet recurring leaks.

The logic is simple. Cash flow is the difference between money in and money out over time. So improvement has only three directions: **get money in faster, let money out slower, and free money that is currently stuck**. Every tactic in this chapter falls into one of those three buckets — plus a fourth, building a buffer so the ups and downs never become a crisis again.

THE CASH FLOW EQUATION

Improvement = (speed up inflows) + (slow down outflows) + (free trapped cash) − (plug the leaks). Stack small gains in each and the bank balance moves before revenue ever does.

> ***"You don't find cash flow. You create it — one deliberate decision at a time."***

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SECTION 02

Accelerating Receivables

The fastest dollar to collect is the one already owed to you. Receivables are not "future cash" — they are your money, sitting in someone else's account, earning interest for them instead of you.

Anything that shortens the gap between delivering your product or service and seeing the deposit is a direct cash-flow win. The table below ranks the practices that move the needle most.

RECEIVABLES PRACTICE	CASH FLOW IMPACT
Invoice the same day, not end-of-month	Cuts days-sales-outstanding by weeks; the clock starts immediately.
Offer 2/10 Net 30 terms	A 2% discount for payment in 10 days buys liquidity cheaply when you need it.
Automated reminder cadence	Drops average collection time sharply without awkward phone calls.
Require deposits & milestone billing	Brings cash in before the work, funding delivery as it happens.
Electronic invoicing & payments	Removes mail float; funds often settle within a business day.

THE 2/10 NET 30 MATH

On a **$10,000** invoice, offering 2% off for payment in 10 days costs **$200** — to collect **$9,800** roughly twenty days early. When that cash prevents a credit-line draw or covers Friday's payroll, $200 is a small price for liquidity. Just run the numbers each time: don't offer the discount when you don't need the speed.

- **Invoice immediately.** The moment work is delivered, the invoice goes out. A sale without a prompt invoice is a gift of float to your customer.

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- **Make paying easy.** Accept cards and ACH on the invoice itself. Every extra step a customer takes is another day added to collection.
- **Set a reminder cadence.** Three days before due, on the due date, and seven days after — automated, friendly, and consistent.
- **Take deposits up front.** For large or custom work, 25–30% down and milestone billing means the job funds itself as you deliver it.

> *"An invoice unpaid is not a sale. It is an interest-free loan to your customer."*

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SECTION 03

Managing Payables Strategically

Payables are the mirror image of receivables — your vendors' money, still sitting in your account. Held legally and ethically, every extra day is free financing that works in your favor.

Strategic payable management is not about paying late or dodging bills. It is about paying **on the right day**, on the terms you and your vendor agreed to, and renegotiating those terms when the relationship supports it. The goal is to keep cash in your account for as long as the contract allows.

- **Pay on the due date, not before.** Unless an early-pay discount applies, an invoice paid five days early is five days of interest-free cash handed back to the vendor.
- **Negotiate longer terms.** Moving a key supplier from Net 30 to Net 45 or 60 frees a meaningful slice of working capital with no new debt.
- **Take the discount when the math works.** 2/10 Net 30 is roughly a 37% annualized cost of *not* taking it — so take it whenever your cash position allows.
- **Stagger and schedule payments.** Batch payables by due date so no single week drains the account and you can see shortfalls coming.
- **Protect the relationship.** Push too hard and terms vanish, shipments halt, and you end up on COD — the most cash-hostile terms of all.

> THE GOLDEN RULE OF PAYABLES
>
> Slow your payables exactly as ethically as you would want your own customers to slow their payables to you. Hold cash to the agreed terms — never beyond them. Reliability is what earns you better terms in the first place; abusing them destroys the leverage that made them possible.

> ***"Every day you hold cash legally is a day it works for you, not your vendor."***

SOURCE PAGE 07

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SECTION 04

Inventory Optimization

Inventory is frozen cash sitting on a shelf. The more you hold, the less you have to spend — and the longer it sits, the more it quietly costs you to keep.

Every item in your warehouse is a stack of bills you already paid: the purchase price, plus storage, plus insurance, plus the cost of the money tied up in it. A business with **$50,000** in slow-moving stock is, in cash-flow terms, a business holding **$50,000** hostage — and paying rent on the prison.

Turn

Inventory turnover shows how often stock sells and is replaced. Higher turnover = cash cycling faster.

ABC

Rank items by value: tight controls on the few costly A-items, looser rules on the many cheap C-items.

Clear

Dead stock converted to cash at a discount still beats cash tied up for another year.

- **Measure turnover.** If a product sits longer than its margin justifies, it is draining cash, not storing value.
- **Set reorder points.** Carry enough to avoid stockouts, not so much that you're warehousing the supplier's risk.
- **Run an ABC analysis.** Focus cash and attention on the high-value items that drive most of your inventory dollars.
- **Clear slow movers.** Discount, bundle, or liquidate — a partial recovery now beats full price that never comes.
- **Lean toward just-in-time.** For reliable suppliers, order smaller and more often so cash stays liquid, not locked on a shelf.

> THE HIDDEN COST OF HOLDING
>
> Storage, insurance, obsolescence, spoilage, shrinkage, and the financing cost of the money itself — inventory's real price tag is far larger than the number on the invoice. A 12-month-old item may be quietly costing you more each month than its eventual sale will return.

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> *“Profit is what you sell. Cash is what you sell — collect — and don’t warehouse.”*

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SECTION 05

Cash Reserves & Lines of Credit

A reserve is the cushion that absorbs shocks. A line of credit is the bridge that smooths the bumps between them. Build the first; keep the second in reserve.

Even a business pulling all five levers well will hit rough patches — a slow season, a surprise expense, a customer paying late. The difference between a manageable dip and a crisis is whether you have a cushion of your own money to land on, or whether you reach for borrowed money on day one.

- **Target three to six months of operating costs.** Enough to ride out a bad quarter or two without touching credit.
- **Fund it gradually.** Sweep a fixed percentage of every receipt into a separate, untouchable account before the cash can be spent.
- **Keep it liquid and separate.** A dedicated savings-style account, not mixed with operating cash you'll raid for routine bills.
- **Use the line for timing, not for losses.** A credit line bridges the gap between an earned receivable and a due payable — it should never fund a business that isn't profitable.
- **Compare the costs honestly.** Sometimes drawing the line at 9% is cheaper than missing a 2/10 discount or straining a vendor. Sometimes it isn't. Run the math.

RESERVE VS. CREDIT LINE

A reserve is **your money**, free. A credit line is the **bank's money**, with interest. Build the reserve first so the credit line stays for true timing gaps and real emergencies — never as a substitute for managing the other four levers.

> *"A line of credit is a fire extinguisher — essential to own, dangerous to live by."*

SOURCE PAGE 10

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SECTION 06

Finding Your Cash Leaks

The most overlooked source of cash is the money quietly leaving through subscriptions, fees, and forgotten contracts. Find the leaks and the cash returns — often with no new effort required to keep it.

Overhead leaks are cash-flow gold because recovering them is pure gain: no extra sale, no extra collection, no extra work once the cancellation is filed. Most businesses are astonished at what an honest audit turns up.

COMMON CASH LEAK	TYPICAL ANNUAL COST	THE FIX
Unused software seats	\$1,200–\$3,600	Right-size licenses to actual users.
Overlapping tools	\$2,000–\$6,000	Consolidate to one platform per job.
High merchant/bank fees	\$1,500–\$5,000	Renegotiate or switch processors.
Auto-renewing services	\$500–\$2,400	Cancel what you no longer use.
Unreviewed insurance	\$1,000–\$4,000	Re-shop coverage annually.

THE SUBSCRIPTION AUDIT

List every recurring charge on the last two statements of every business account. Mark each one *used, unused,* or *redundant*. Cancelling \$4,000 a year of unused tools is a **\$4,000** cash-flow improvement — found in an afternoon, with no impact on operations.

> *“Cash flow isn’t only what you earn and collect — it’s what you stop quietly losing.”*

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SECTION 07

Key Takeaways

If you remember nothing else from this chapter, remember these six ideas. Apply even two of them next month and your bank balance will move before your revenue does.

1. **Cash-flow improvement is five deliberate levers, not one heroic move.** Work inflows, outflows, trapped cash, reserves, and leaks together — small gains stack.
2. **Accelerate receivables.** Invoice the same day, offer early-payment discounts when speed matters, and automate reminders so collection never depends on memory.
3. **Slow payables ethically.** Pay on the due date, renegotiate terms, and take discounts when the annualized math works in your favor.
4. **Free trapped cash.** Inventory is frozen money — turn it faster, clear the dead stock, and carry only what the margin justifies.
5. **Build a reserve before you lean on credit.** A cushion absorbs shocks; a credit line only bridges timing gaps. Use each for what it does best.
6. **Plug the leaks.** Audit subscriptions and fees annually — recovered overhead is the purest cash-flow gain you will ever find.

> *Improve cash flow deliberately, and you stop reacting to your bank balance and start designing it — a business that is solvent this Friday and confident enough to grow next Monday.*

Build Your Financial Foundations with TLC

TLC Business Solutions helps small business owners strengthen bookkeeping, accounting, payroll, tax consulting, financial management, and practical decision-making systems so the numbers are clean, useful, and ready for growth.

tlcbusinesssolutions.com

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