Cash reserves

Cash in the bank acts as a buffer and can help you better weather the ups and downs you may encounter in running your business. Reserve cash buys you more time if things go wrong, and it allows you to experiment and test new ideas without needing immediate revenues to cover your costs.

This checklist will help you identify ways to create and build your cash reserves.

✓ Focus on your goods and services

- [ ] Optimize pricing strategies
- [ ] Monitor excess inventory efficiently
- [ ] Encourage upfront or cash payments
- [ ] Train and encourage staff to upsell
- [ ] Improve supplier and purchasing strategies

✓ Manage debtors

- [ ] Develop a firm but fair collection policy
- [ ] Add clear credit terms policy to invoices
- [ ] Put pressure on late payers
- [ ] Send your invoices out quicker
- [ ] Offer incentives for early payment

✓ Communication and technology

- [ ] Optimize mobile and internet plans
- [ ] Use cost-effective communication tools
- [ ] Reduce travel costs with online meetings
- [ ] Automate invoicing and payments
- [ ] Reduce paper-based processes

✓ Manage your expenses

- [ ] Eliminate waste and recycle efficiently
- [ ] Review premises and equipment costs
- [ ] Cut unnecessary subscriptions and services
- [ ] Check staffing levels
- [ ] Track and forecast cash flow

✓ Looking internally

- [ ] Sell unused assets
- [ ] Look for alternatives
- [ ] Optimize inventory levels to free up cash
- [ ] Monetize underutilized space
- [ ] Streamline operations to reduce inefficiencies

✓ Evaluate your business borrowing

- [ ] Review overdrafts
- [ ] Review loans
- [ ] Review credit cards
- [ ] Compare interest rates to ensure competitive borrowing costs
- [ ] Consolidate high-interest debt where possible

PARTNER COLORADO
CREDIT UNION

Cash reserves

Focus on your goods and services

Optimize pricing strategies

Regularly evaluate your pricing to make sure you're covering costs, keeping pace with inflation, and maximizing profitability. Many small businesses undercharge for their products or services, missing out on potential revenue. Small, strategic price increases can increase cash flow without significantly impacting demand.

When raising prices, communicate added value to customers, whether through improved service, product quality, or unique offerings. Monitor competitor pricing and market trends to stay competitive while maintaining healthy margins.

Monitor excess inventory efficiently

Holding unnecessary stock ties up cash that could be used elsewhere in your business. Reduce slow-moving inventory by running sales, bundling products, or offering special deals to selected customers. Regular stock reviews help identify items that need to be cleared.

If possible, negotiate with suppliers to return or exchange unsold stock for credit or discounts on future orders. Balancing bulk purchasing discounts with your cash flow needs means you won't overcommit capital to stagnant inventory.

Encourage upfront or cash payments

Offering discounts for early or full cash payments can improve liquidity by reducing the risk of late payments and avoiding credit card transaction fees. For service-based businesses, a modest discount, e.g., 5%, for prepayment can accelerate cash inflow and reduce administrative costs related to chasing payments.

Be strategic with discounts to make sure they don't erode profit margins. If cash payments are not feasible, encourage faster payments by tightening invoicing terms or implementing automated reminders.

Train and encourage staff to upsell

This is a great way to increase revenue without additional marketing costs. Train staff to suggest complementary or upgraded products based on customer needs. For example, a café employee might recommend a premium dessert with a coffee order, improving both customer experience and sales. Employees should focus on providing value rather than pushing sales. Well-informed recommendations can improve customer satisfaction, encourage repeat business, and drive higher revenue per transaction.

Improve supplier and purchasing strategies

Regularly review supplier agreements to make sure you're getting the best value. Comparing vendors and negotiating better rates, discounts, or payment terms can lead to substantial cost savings. Consider group purchasing with other businesses for better bulk pricing.

Implement a Just-In-Time (JIT) inventory system to minimize unnecessary stockpiling. Ordering only what you need based on demand forecasts helps free up cash and reduces storage costs.

Manage debtors

Develop a firm but fair collection policy

Customers need to know you will consistently follow up on overdue bills. This is where good accounting systems are essential because they enable you to quickly generate overdue payment reports, or flag them automatically for your immediate attention.

Also, offering alternative payment options, such as taking credit card payments, or accepting electronic payments can sometimes help you collect faster.

Add clear credit terms policy to invoices

Make sure your payment terms are clearly indicated on invoices and other correspondence. Clearly defined terms help prevent late payments and cash flow disruptions.

When negotiating a new contract, include payment terms so your customer understands your expectations from day one. For example, if your standard terms require payment within 30 days, consider offering a small discount for early payments or imposing late fees to encourage timely settlements.

Put pressure on late payers

If a client is routinely late with payments, call them to understand the reason. Late payments can stem from simple issues like incorrect invoice details, financial difficulties, or unresolved disputes.

Cash reserves

Addressing the root cause can help prevent future delays. If a customer is struggling with cash flow, you might negotiate a structured payment plan to recover outstanding amounts while maintaining the business relationship. Setting up automated payment reminders or enforcing late fees can also encourage more timely payments.

Send your invoices out quicker

Consider assigning a dedicated team member or using automated invoicing software so that invoices are sent promptly. Delays in sending invoices can lead to delayed payments, affecting your cash flow.

Sending invoices as early as possible increases the likelihood of faster payments. If you complete a project on the 1st of the month but wait until the 15th to invoice, you've lost two weeks of potential payment processing time.

Offer incentives for early payment

Encourage early payments by providing clients with tangible benefits, such as a small percentage discount on invoices paid before the due date or priority service on future orders. For example, offering a 2% discount for payments made within 10 days can motivate clients to settle invoices faster while still maintaining profitability.

However, make sure that any incentives are financially sustainable, since offering excessive discounts or free services may erode your margins.

Communication and technology

Optimize mobile and internet plans

These plans evolve frequently, and you may be paying for unused data, minutes, or unnecessary features. Review your mobile plans to make sure employees have the right balance of calling and data allowances based on their needs. If some employees rarely use business phones, consider a reimbursement model instead of providing company devices.

Assess your internet service so that you're not overpaying for excessive bandwidth. If your business relies on video conferencing and cloud applications, a high-speed connection is necessary, but for lighter internet use, a lower-cost plan may suffice. Compare business-specific plans that offer reliability guarantees and better customer support.

Use cost-effective communication tools

Traditional long-distance and international calls can be expensive, but VoIP (Voice over Internet Protocol) services like Zoom, Google Voice, and RingCentral offer more affordable options. These services use an internet connection instead of phone lines, often providing free or low-cost international calling.

If you already use VoIP, review your plan to make sure you're not paying for unnecessary features. Some providers offer pay-as-you-go options, which can be more cost-effective for businesses that make infrequent long-distance calls.

Reduce travel costs with online meetings

Virtual meetings have become an essential part of business operations. If your business frequently holds online meetings, make sure you are using the most efficient and cost-effective platform. Tools like Zoom, Microsoft Teams, and Google Meet offer different features, pricing structures, and integrations. Review them to determine which aligns best with your business needs.

Beyond selecting a platform, make sure your team is equipped with the right tools to maximize the effectiveness of virtual meetings.

Automate invoicing and payments

Switching to electronic invoicing saves time and improves cash flow. Tools like Xero allow you to automate invoices, send reminders, and track payments in real time, reducing the risk of delays and errors. Electronic invoicing also makes it easier to reconcile payments and integrate with banking systems.

Accepting electronic payments further streamlines your cash flow. Whether through POS systems, mobile payment apps, or automated subscription billing, digital payments reduce processing time, minimize manual follow-ups, and improve customer convenience.

Reduce paper-based processes

Printing, mailing, and storing physical documents add unnecessary costs. Moving to a digital-first approach such as using e-signatures, cloud storage, and online collaboration tools, reduces paper use, saves storage space, and improves document security.

Cash reserves

Invest in secure cloud storage solutions like Google Drive, Dropbox, or OneDrive to keep important files organized and easily accessible. Transitioning to digital workflows not only cuts costs but also improves efficiency by making information retrieval faster and reducing administrative burdens.

Manage your expenses

Eliminate waste and recycle efficiently

Setting up recycling bins for paper, plastic, and metal in key areas makes it easy for employees to participate. Additionally, recycling printer cartridges, old electronics, and unused office furniture can cut waste and even generate cash if resold or repurposed.

Encourage employees to be mindful of resource use, e.g. printing only when necessary, reusing materials, and opting for digital documents where possible.

Review premises and equipment costs

If you own or lease office space, regularly evaluate whether it meets your needs or if you're paying for unnecessary square footage. If you have unused space, consider subleasing it to another business or reducing your footprint by switching to a smaller location or remote work model.

Similarly, review equipment costs to determine if you're maintaining machinery or vehicles that aren't fully utilized. Leasing or selling underused equipment can free up cash, and renting equipment only when needed may be a more cost-effective alternative to ownership.

Cut unnecessary subscriptions and services

Many businesses pay for unused or underutilized subscriptions, from software and memberships to professional services. Conduct a regular audit to identify services that are no longer essential and cancel or downgrade plans accordingly.

Be especially mindful of auto-renewing subscriptions and service contracts. A tool or platform that was once valuable may no longer be necessary, and eliminating these recurring expenses can result in significant savings over time.

Check staffing levels

This helps you avoid overpaying for unneeded labor or struggling with shortages during peak periods. If your business has seasonal fluctuations, consider hiring temporary or contract workers instead of maintaining a full-time staff year-round.

Cross-training employees can also improve efficiency and reduce the need for additional hires.

Track and forecast cash flow

Monitoring daily cash expenditures helps identify unnecessary spending, allocating funds effectively. Maintain a clear record of outgoing cash and assess whether each expense contributes to business growth or efficiency.

Use cash flow forecasting to anticipate financial highs and lows. A solid forecast allows you to plan for lean periods, set aside reserves, and take steps such as negotiating better payment terms or securing financing, before cash shortages occur.

Looking internally

Sell unused assets

Determine if you have equipment that is underused. If you use an asset only a few times a month or year, then it could be a better option to rent or lease similar equipment when you need it.

Many businesses have assets that, if sold, create cash that may be better used as working capital to keep the business going.

Look for alternatives

While the latest technology or equipment can certainly offer a business advantage, it's not always the most cost-effective choice. Often, older models or second-hand goods can deliver similar functionality at a fraction of the price. By considering alternatives, you can free up cash.

Decide whether the latest technology is truly necessary for your business. While advancements in tech can improve productivity, sometimes a slightly older model or a more basic version can meet your needs just as effectively.

Cash reserves

Optimize inventory levels to free up cash

Holding excess inventory ties up valuable cash that could be used elsewhere. Regularly reviewing stock levels and adopting just-in-time ordering can prevent over-purchasing and free up working capital.

Using inventory management software can help track sales trends and avoid sitting on slow-moving stock. Keeping lean inventory levels ensures that cash is not unnecessarily locked up in unsold goods.

Monetize underutilized space

If you have extra office, retail, or warehouse space that isn't being fully utilized, consider renting it out. Subletting can provide an additional revenue stream and help offset fixed costs.

Even small changes, like renting out a spare office or leasing storage space, can turn an idle asset into a steady source of income. Explore local demand to see if businesses or freelancers need flexible workspace options.

Streamline operations to reduce inefficiencies

Inefficient processes waste time, money, and resources. Regularly evaluate your workflows to identify bottlenecks and areas where automation or process improvements can save costs.

Automating repetitive tasks, improving coordination between teams, or adopting more efficient technology can speed up operations and reduce waste. Even small changes in how tasks are managed can lead to significant financial benefits over time.

Evaluate your business borrowing

Review overdrafts

Overdrafts can be a quick fix for cash flow issues, but they often come with high-interest rates. Regularly review the terms of your overdraft facility to make sure it's still the best option for your business needs. If you're using an overdraft frequently, it may be a sign that a more structured borrowing option, like a term loan, could offer better rates and terms.

If you're consistently using your overdraft to cover short-term fluctuations, you might want to explore options for a working capital loan or line of credit with lower interest.

Review loans

Business loans should align with your long-term goals. Review your current loans to make sure they are still the most cost-effective solution. Evaluate interest rates, repayment schedules, and whether the loan term fits your current business needs.

If your business is growing and your borrowing needs are changing, consider refinancing or extending your loan term to reduce monthly payments and free up cash.

Review credit cards

Credit cards are often a convenient tool for managing cash flow, but high interest rates can make them expensive. Regularly review your credit card terms so that you're not paying unnecessary fees. If your current business credit card has high interest or unfavorable terms, consider switching to one with lower rates or better rewards for your business.

If you're regularly carrying a balance on your credit cards, it may be worth considering a business loan to consolidate and pay down high-interest debt.

Compare interest rates to ensure competitive borrowing costs

Interest rates can significantly impact the total cost of your borrowing. Regularly compare the interest rates of your business loans, overdrafts, and credit cards with available alternatives to make sure you're getting the best deal.

Consider exploring fixed-rate loans to avoid fluctuations in interest costs, or a line of credit with a lower rate to offer more flexible repayment terms.

Consolidate high-interest debt where possible

If you're juggling multiple high-interest debts, consolidating them into one loan with a lower interest rate can save you money. Debt consolidation can also simplify payments, making it easier to manage your cash flow.

For example, consolidating credit card balances or overdrafts into a single loan with more favorable terms can reduce monthly expenses and help you pay off debt faster.

Cash reserves

Notes

Note
This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.