

## 17 Cash Opportunities Buried in Your Business

Of course, you won't walk into your business one day and find cash stashed away in some hidden closet or dark corner. Yet there are ways to tap into cash for emergencies and for quick growth. And there are some powerful strategies to grow your cash.

Sometimes it's a matter of using some powerful marketing strategies and sometimes it's a matter of finding cash in your business that seems to be hiding. For instance, many businesses have cash crunches, yet when they analyze their accounts receivable, they find that their cash is parked at other businesses. There is a simple and effective way to get this cash coming in the door sooner rather than later. Another way to reap more cash is to understand the lifetime value of a customer. Acquiring a customer is much more expensive than selling to the customers you already have, yet many entrepreneurs don't exploit this. When they learn how, the cash starts flowing in.

These tried and true strategies have opened the cash doors for many businesses just like yours. The marketing strategies are powerful cash generators so if you haven't been using these try them.

### Contents

1. **Factoring:** quick cash when you need it.
2. **Selling Inventory:** finding cash in non moving inventory.
3. **Leaseback for Cash:** to own, to have cash, and to own again.
4. **Accounts Receivables Management:** it's all in the timing.
5. **Line of Credit:** cash should be flexible; so is the loan.
6. **Cash for Mailing List:** extra cash for a little information.
7. **Cash for your Expertise:** you'd be surprised who will pay you.
8. **Joint Ventures and Partnership Marketing:** let others do your marketing.
9. **Up-sell:** they may want to spend more; ask them.
10. **Cross-sell:** what else do they need?
11. **Back-end Sales:** they've bought, they're hot, what else do you have?
12. **Referrals:** cash networks.
13. **Inactive Customers:** yes, there's still cash to be made.

14. **Customer Analysis:** getting the most by knowing your customer.
15. **Cash Management Tools:** use these to control cash and make it grow.
16. **Ratios:** some of these are too important not to know.
17. **Potpourri:** a few miscellaneous cash tricks.

## **Factoring: When You Need Cash Fast (1)**

### **What it is:**

You will be selling your accounts receivables for a period of time at a discount. What this amounts to is a loan based on part or all of your accounts receivables.

### **Advantage:**

If you have a fair amount of receivables, you can get cash fast.

### **Disadvantage:**

You pay a premium for the money.

### **When to use:**

Your sales have been good but you are in a cash crunch. This will give you time to bring in cash from accounts receivable.

You need cash in a hurry because you have landed a big customer or contract. This lets you take on new customers while waiting for the cash to come in from previous sales.

You are in a cash crunch, and you need to buy time to straighten it out.

### **What you must know:**

Factoring is a way to get cash fast. It is best used when you need cash for expansion or you need cash to buy time. Analyzing your situation and putting numbers to the deal will tell you if it is worth it.

Recently, a group of factoring businesses have emerged to work with small and medium sized businesses. Because loans from banks can take 90 to 120 days to process, these businesses have spotted a need and moved in. These companies favor fast growing companies with sales of less than ten million dollars.

What do you pay? Factors normally take between 1.5 to 5 percent of the invoice. Normally, the factor lends the amount of 80% of an invoice initially. Say an invoice is \$10,000. You would receive \$8,000. Once the invoice has been collected you get the rest of the money minus the percentage the factor has agreed to. However, the percentage can range from 70% to 90%. You can usually have your money in days.

A factor collects the receivables which means you won't have to worry about that. However, most factors balk at accepting receivables over 90 days old.

Often service and technology companies grow at a fast clip initially and need a fast way to raise cash at these crunch times. That's when factoring can come to the rescue.

Belmont Gourmet Ice Cream is a perfect example of how factoring can be used. Their ice cream sales had hit the \$500,000 sales per year mark. They were growing fast but ran out of cash. They had to make a decision: cut back and remain small or try to find cash and expand. They used factoring and received 45 days worth of sales in cash. They were able to go after and obtain a grocery chain customer they had wanted for years but couldn't

because of limited cash. Not only did they get the customer, they also saved money by receiving the discounts they wanted by ordering at higher numbers.

### **How to pick a factor:**

#### 1. How well do they know your market

One way to find out is to take a list of twenty customers and ask factors to judge the credit worthiness of each account. What you want is for them to approve the largest number without taking huge risks. If one factor is out of line with the others, they may not be familiar enough with your industry.

#### 2. What will it cost

The cost can vary and some of it is affected by the quality of your receivables. However, fees and rates can be negotiated. There is competition in the field. Check out several factors.

#### 3. Buried costs

Make sure to find out what other costs may be involved. Some companies will spring last minute costs on you.

#### 4. References

Check out references and talk to people in your industry who have used factors.

### **Resources:**

For a free evaluation of cash amounts you can get for factoring see this network of 150 factors:

[www.thefactoringnetwork.com](http://www.thefactoringnetwork.com)

The International Factoring Association has a factor search tool that lets you search according to your specific industry. See below for web address.

<http://www.factoring.org/>

Where to look: The Edwards Directory of American Factors

Check your local library or university

*Edwards Research Group, 617-244-8414, \$199).*

## **Discounting for Cash: Selling Inventory/Services (2)**

### **What it is:**

If you really need cash in a hurry, the old standby sale is always good. However, what if you are selling services? Roll your monthly service into a good deal for the customer and put them onto a monthly contract by offering an incentive that helps you and them. However, if you don't have the time to address excess inventory, then you can get outside help that specializes in selling slow to move items.

### **Advantage:**

This is a good way to bring in cash in a matter of days. Why let inventory sit making you no money when you can get some needed cash? Think about it. Do you have inventory that will be sitting there next year because you didn't have the time to deal with it.

### **Disadvantage:**

You have discounted your product or service in the long run.

### **When to use:**

When you need cash in a hurry. When you need cash to expand or bring in larger customers. When you don't have time to deal with it, call in companies that specialize in selling excess inventory.

### **What you must know:**

Do you have slow moving inventory you could get rid of by lowering the price? Do you have an incentive you can give away or discount to go along with ridding yourself of inventory. Gaining control of your inventory can free up cash flowing out the door. Are you ordering too much of certain products? This can change rapidly month to month. Find companies specializing in this kind of service called liquidators.

If you sell a service and are in a bind for extra cash, have you offered to put your customers on a contract basis? That monthly payment can look smaller in some cases. For instance, some lawn mowing services put their customers on a monthly basis. Some throw in fertilizing and leaves removal so they spread the expense over a whole year instead of trying to collect after every lawn mowing.

### **How to:**

It's as simple as deciding what to sale, then running a sale ad. You can send post cards to customers. If you offer a service, call or send customers an offer that they can't resist. If you have a lot of inventory but not a lot of time to deal with it, you may want to use a business liquidation service.

## Ways to Use the Liquidation Process

Business to business liquidation: if you have products in bulk this is a good way to go. One company that specializes in this is [Liquidation.com](http://Liquidation.com) . They buy from small businesses and auction off the goods later.

Use a surplus liquidator: The following offer a wide range of products they will buy: [Instant Liquidators](#), [Merchandise USA](#) and [Power Retailing](#)

Do It Yourself Auction: You can help with [eBay Private Marketplace](#) . This is especially good if you have a lot of inventory and your company often does. Once you set up this system and get familiar with it, you can maximize how much cash you can get.

Tax write off: You can get a lucrative tax write off for donating products to charity which means extra cash for you. In fact, you can get a tax break on twice the amount of the cost of the goods. Check out The National Association for the Exchange of Industrial Resources, [NAEIR](#).

### Resources:

For an excellent article on this see:

*Guide to Disposing of Excess Inventory*

By Daniel Kehrer, Work.com Editor

<http://www.work.com/disposing-of-excess-inventory-829/>

## Quick Cash from Sale-Leasebacks (3)

### **What it is:**

If you have substantial value in machinery or equipment, you can sale these assets then lease them back on a monthly basis. You get needed cash and make monthly payments. The equipment never moves an inch from your business. You are borrowing on the equity of your equipment.

### **Advantage:**

You get cash so you can address aspects of your business that can help you revamp your business for the long haul. You get to keep equipment you need to run your business. The sale/lease-back can have positive tax implications if it is structured correctly. You can normally receive \$10,000 to \$350,000 based on the equity in your equipment. You can receive cash in a short amount of time usually from 24 to 72 hours. You get tax advantages as you can write off 100% of your monthly payment.

### **Disadvantage:**

You have given up some value in assets. As always make sure this is a good financial move for you. Always be wary of bad loan practices.

### **When to use:**

A downturn in your industry has occurred and you need cash fast. You can sell your assets and free up some much needed cash while keeping your machinery/equipment to use. A sudden surge in sales means you need more cash to purchase inventory or supplies to keep up. You need money for growth.

### **What you must know:**

You must do an inventory and evaluation of your equipment and machinery. Consult an accountant about tax implications. Your equipment is transferred through a bill of sale. Once you have paid back the debt, you buy the equipment back for a small price usually \$1. The loan is usually for 70% to 90% of the value of the equipment.

### **How to:**

Contact a lender specializing in equipment sale-leaseback loans.

### **Resources:**

For some examples of companies who used this and the details of their lease-back deal as well as what kind of equipment you can get cash for see this site:

<http://www.equipmentleasebackfund.com/>

If you want to do a search that matches you with over 4,000 lenders in this area visit BusinessFinance.com:

<http://www.businessfinance.com/CapitalSearch.aspx>

## Accounts Receivables Management (4)

For the small to medium business, this is an area that can use some tweaking to get a lot more cash for your business. Time and time again business owners have neglected this area.

### **What it is:**

Managing Accounts Receivables is vital in making sure you have enough cash to operate your business. However, many entrepreneurs spend most of their time in marketing and sales thinking the cash will follow. Not usually so.

Because accounts receivables gets neglected for one reason or another, cash starts to dry up. Yet, there are some simple little tricks that can be used to speed up the cash flow.

There are several key areas to get more cash from your business: billing problems and collection problems.

### **Advantage:**

Once you have a better system in place, you will have solved a great part of cash flow problems. Your profitability will increase because you will be collecting your cash sooner and you will have less write-offs. The longer a debt goes unpaid the more likely you will have a write-off. A simple phone call can get you paid quicker whereas others may have to take the write-off, not you.

### **Disadvantage:**

If your accounts receivables are in a mess, you may have to spend some time not only analyzing what is wrong, you will have to spend time bringing them up to more efficient levels and creating a system where this won't happen again.

### **When to use:**

If you seem to be making sales but you don't have any cash, something is wrong with your accounts receivables. If you notice you have a lot of uncollected invoices, something is wrong.

One doctors' medical group almost went into bankruptcy. What was the problem? They were missing 2 million dollars of receivables some of which were never billed to customers. Collections were in a poor state which led to slow payments and many write-offs.

### **What you must know:**

You can tap into a lot of cash using a few simple tricks of the trade. You must review your credit policy and know your customers. What you must understand is cash management. This is nothing more than cash in, cash on hand, and cash out. Analyze your accounts receivable and your accounts payable. Do you have more cash going out than coming in? Is this ongoing? How long?

**How to:**

To find out how you are doing and whether you can grab cash out of your business faster, you will need to know your DSO or Days Sales Outstanding. If you determine that you are running longer than 10 to 15 days than your terms of sale, you know you aren't getting your cash fast enough. To get your DSO use this formulae:

$$\frac{\text{Ending Total Receivables}}{\text{Credit Sales for Period Analyzed}} \times \text{Number of Days in Period}$$

An online calculator can be found at:

[http://www.credit-to-cash-advisor.com/document\\_119.html](http://www.credit-to-cash-advisor.com/document_119.html)

To find what DSO norms are for your industry as well as some other important ratios visit:

<http://www.creditguru.com/ratios/inr.htm>

If you find out you have a large amount of cash tied up into aged accounts receivables, it is time to make a concentrated effort to bring in the cash. Although some businesses use collection letters, in this case it will be much more effective and you can get your money much faster by using the telephone.

**Some tricks of the trade:**

How do you make a collections call, yet not offend a good customer?

Here's a tried and true script that will bring in the money:

Make the phone call to the business

**Script**

You(or someone you have assigned the task): Hello, this is Bill Smith(your name) with ABC company (your company name). Can you connect me with accounts payable?

After you reach accounts payable:

You: Beverly (or whoever the accounts payable girl is) this is (your name with company name). I need to check on an invoice. She ask for the invoice number or numbers if you have more than one.

Accounts payable clerk: Yes, we have that invoice and it is in line to be paid  
\_\_\_\_\_(date)\_\_\_\_\_.

You: Thank you, good-bye.

## **End of Script**

See how easy this is? But many people are reluctant to even make this call. If the accounts payable girl sounds at all friendly, strike up a little chit chat. Be friendly. It will help keep the cash flowing.

Now here's the trick. Many people call and get rude thinking it will speed things up. The accounts payable person is usually operating on how much money she can release. If she knows you and you are polite and a little bit chatty guess what? She will remember you and your company first. If it is a good account and they are in the area, it doesn't hurt to take her out to a business lunch. Guess what? This stuff works.

And if there has been a problem with your product or something else, you will find out. They may have a note to hold payment. It may something small that can be easily resolved. These are not uncommon.

What happens if you still don't get paid? Call back once more. If you don't get results, it's time to move up the ladder. Ask for the controller or chief financial officer. Use the same script. This intensifies the situation but remain polite. This usually does the trick. If not, call the president or owner.

## Flexible Cash: Line of Credit (5)

### **What it is:**

Basically a loan where you access cash as needed. There is a limit and you pay down the loan as revenues come in.

### **Advantages:**

You don't have to borrow money you don't need. A line of credit provides much needed flexibility to your business. It gives you cash when you need it the most. If your business is seasonal, this can really help smooth over the slow times. You can pay down your loan as cash comes in.

### **Disadvantages:**

You will pay a higher rate of interest on this kind of loan. You will need to gather financial information for a bank or lending source.

### **When to use:**

When you have seasonal crunches or growth spurts, you need to even out your cash needs. When you hit a bad month or your business experiences high growth and you need to access extra cash. Do you need to remodel or move into a bigger place? Do you need an upgrade in your phone system or some other technology? Has an unusual business opportunity presented itself and you need cash fast?

### **What you must know:**

The interest rate usually runs about 2% to 3% above the prime rate. Banks offer up to \$100,000 lines of credit.

### **How to:**

Obtain information from commercial lenders for the programs they offer.

### **Resources:**

Wells Fargo offers a line of credit you can apply for online even if you aren't a customer. Check out these sources: [Wells Fargo](#), [Bank of America](#), [Washington Mutual](#), [Wachovia](#), [Key Bank](#). Try [NetBank](#) for an internet source.

UPS and American Express also have programs. Check out the UPS Capital web page at:

[http://www.upscapital.com/solutions/sbl\\_main.html](http://www.upscapital.com/solutions/sbl_main.html)

American Express offers a line of credit from \$10,000 to \$100,000. See their web site at:

<http://www133.americanexpress.com/osbn/Landing/lines/Businesslinesofcredit.asp>

### **Shopping Around**

If you want to do some online shopping use the following:

[BusinessFinance](#) or [iBank](#)

## Cash for Your Mailing List (6)

### **What it is:**

If you have developed a customer list of at least a thousand names you may be able to make money by renting your list out.

### **Important to know:**

You can rent your list from \$35 to \$95 per thousand names minus a list broker's commission usually around 20%. There are about 50,000 lists on the market, but the industry is always looking for more.

### **Advantage:**

The list can be rented over and over again to different buyers. You can count on this as an additional revenue stream. It's extra cash from a source most businesses never knew existed.

### **Disadvantage:**

You must make sure you have a rentable list. You don't want your list to be rented by direct competitors. You need to have about a thousand customers.

### **When to use:**

Once you have developed your list, it's a matter of knowing who to rent it to.

### **What you must know:**

The best way to sell your list is to deal with a reputable mailing list broker.

### **How to:**

The best source for finding information is *Standard Rate & Data Service*. A list broker will be invaluable in making sure you don't rent to the competition. You can learn a lot from a broker and you won't have to pay a consulting fee as they draw a commission on the renting of the list. The best thing about a list broker is that they have plenty of customers out there looking for new lists.

**Resources:** *Standard Rate & Data Service*

## **Selling Your Expertise (7)**

### **What it is:**

Although we live in an information age, good current information isn't always easy to find. You may have plenty of expert knowledge about your field that others would be willing to buy. At the very least you can use information to attract leads for your business.

### **Advantage:**

This is a good way to bring in extra cash without spending a ton of money on products. It is also a good way to establish yourself as an expert in your field.

### **Disadvantage:**

You will have to spend some time developing the kind of information that will be valuable.

### **When to use:**

When you are looking for extra sources of income. When you want to establish yourself as an expert (not that hard if you have any kind of experience in your field). When you are looking for a way to get hot leads.

### **What you must know:**

You must be knowledgeable about your field and be able to put it into an easily digestible format. This is good for consultants, but entrepreneurs that run any kind of business can do this. Several guys, for instance, who have small lawn mowing businesses, put their experience in running this kind of business for sale in an e-book and made plenty of cash in the process. It would probably pay to hire a writer to do this.

### **How to:**

You have knowledge that others need. Collect this knowledge and put it together in a valuable report or current tips type document. Hire a writer. This is a great opportunity to learn more about internet marketing and upgrading your web site. Learn about SEO, search engine optimization or hire an expert in the field to help you bring in the sales. Public relations writers can get you publicity that bring sales.

### **Resources:**

## **Joint Ventures and Partnerships for Cash (8)**

### **What it is:**

Teaming up with a business in a related product or service but not a direct competitor. For instance, if you are selling health food products a good partnership would be someone who sells physical fitness products. You share advertising costs and help market the other's customers. It's a great way to achieve market penetration.

### **Advantage:**

You get more bang for your advertising buck. You pick up new customers who can bring in even more new customers through renewals. You are exposed to a larger percentage of the market. Often you get new ideas from your partners.

### **Disadvantage: :**

You must find appropriate partners. Who sells a related product or service? If they are new to this you may have to coach them along. It may be better to find partners with some experience.

### **When to use:**

Unless you are being overwhelmed with your current sales and can't keep up, now is the perfect time to begin. It may take some time to put all the pieces together so it is a good idea to start early.

### **What you must know:**

You must know what product or services will compliment your own. You must find good partners who have a good reputation and are go-getters themselves. Do they have lots of customers? Advertising costs have risen by six times in the last decade.

### **How to:**

Make a list of possible areas to explore. Find businesses that would be a match for yours. Contact these businesses with a joint-venture proposal. Make sure you have convincing reasons why they would benefit from an association with your business. Emphasize the savings on advertising and the increased sales they will make because they will have access to your customers. Find out who in your area has a good reputation.

It's simply a matter of recommending each others' products or services to the others' customers.

Another good way to take advantage of this strategy is to join and participate in marketing forums online.

### **Resources:**

## **Upselling: More Cash by Simply Asking a Question (9)**

Small to medium sized companies consistently miss opportunities to bring in extra cash. McDonald's is the master of this technique beautifully. After you order #1 or #2, they ask, "Would you like to upsize your fries and drink for only 29 cents?" Now what hungry person wouldn't. Sometimes it's a matter of asking if they want a better quality item. Or he may want a higher priced product because he wants a certain feature.

### **What it is:**

Your customer is purchasing your product or service. It's a matter of giving her a better option. If you do this in a non pressure way, the customer won't resent it. You are merely giving them a choice. Don't use high pressure sales tactics. I have been upgraded many times because the company was good at upselling. When, for instance, I bought a computer, I could do with an upgraded computer. Was I happy? You bet I was. In fact, I was appreciative of the salesperson.

### **Advantage:**

You have already spent the money to gain the customer. Now you have someone who is not only interested in your product or service, you have someone who has listened to your message and liked it. Upselling brings in more cash, because you have increased your return on your investment with this customer.

### **Disadvantage:**

There is a little bit of an art to this and there are some approaches here that need to be learned. If this is not too aggressively, you may lose a customer. Many small to medium size business owners don't use this strategy enough. It needs to become ingrained with your sales staff.

### **When to use:**

It would be hard to think of a small to medium size business that couldn't upsell. Use this on the very first sell. If you are selling and you aren't getting a certain percentage of upsell sales, rethink your strategy.

### **What you must know:**

First you must know what features and benefits your customer would gain by the upgrade. It might be different with different products or services you are selling.

### **How to:**

Naturally you have to find or develop a product or service for your upsell. Once you have

it ask yourself this question: why or under what circumstances might they make an additional purchase? What it comes down to is the **offer**. If you can offer them something of value within the range of 60% of the original purchase, you have a real good chance of an additional sale. Remember we said that this second sale is much more profitable because you have already covered your advertising and marketing costs. So one good way it to offer a slight discount. The whole trick is the perceived value of the offer. If they think, they are getting a discount and they feel they are getting a good or great deal, the sale is more than likely to happen.

The next point is how it is offered. If the offer is done in a casual tone and with a simple but good script that relays to the customer that they are being offered an additional option, most customers will not be offended. Politeness at all times keeps the good mood flowing. What you don't want is pressure tactics that will cause resentment. Offer a simple deal once, then let the customer decide. Don't keep pressuring the customer after that. You will be surprised at the extra sales you can make for such little effort. The good news? **Most businesses have reported acceptance rates of 40% to 60% for their upselling efforts.** Now that's cash in the bank.

## **Cross-selling: The Cash Keeps Rolling In (10)**

### **What it is:**

Could your customer need or want something else with that purchase? McDonalds does this beautifully. “Would you like an apple or cherry turnover with that?” It’s as simple as that.

### **Advantage:**

More cash and thus more profit that goes into your pocket. The approach is easy. You’re not using high pressure sales tactics. You’re offering them something they may want. Makes good business sense and it makes you money.

### **Disadvantage:**

Make sure the cross-sell doesn’t appear as high pressure. You need something else to offer. Sometimes beginning businesses don’t have anything else to offer. This is losing money.

### **When to use:**

At every sell. Even if you are selling a service there are always different levels of service or different kinds of services.

### **What you must know:**

You must develop a keen sense of “what else can I sell that would make sense with the original purchase.

### **How to:**

Do a little research if you don’t already have some products for cross-selling. What is the competition doing? What haven’t they thought about that I could add to my product or service line? Look at some of the larger businesses in your field. What are offering? Have you considered using direct mail or hiring a good direct mail copywriter after your first sales? You need to communicate to your new as well as old customers what other products you have or are introducing.

Many years ago I had one very frustrating experience changing out the brakes on my foreign car. I am not the most mechanical guy in the world, but most of my friends seemed to do these things with relative ease. I got everything taken off and almost everything put together. How proud I was of myself. But one of the final steps was pushing a little spring through a funny little hole. Every time I almost had it in, it would launch itself toward my head or over my shoulder. This went on (this I know is hard to believe) hour after hour.

Well the next time I was at the auto store I was looking around and ran across a little device that help pushes these brake springs in so they wouldn’t pop out. Do you think if someone at the counter had asked me if I had this tool and what would happen if I didn’t have one, I would have purchased it. Hell yes. And even if I had thought I could get along without it in a macho fog, do you think after about thirty minutes of chasing the

spring all over the garage, I would have zoomed back down to the auto store to gladly purchase that tool?

**Resources:**

Many years ago I had one very frustrating experience changing out the brakes on my foreign car. I am not the most mechanical guy in the world, but most of my friends seemed to do these things with relative ease. I got everything taken off and almost everything put together. How proud I was of myself. But one of the final steps was pushing a little spring through a funny little hole. Every time I almost had it in, it would launch itself toward my head or over my shoulder. This went on (this I know is hard to believe) hour after hour. This was the last brake job I ever tried.

Well the next time I was at the auto store I was looking around and ran across a little devise that help pushes these brake springs in so they wouldn't pop out. Do you think if someone at the counter had asked me if I had this tool and what trouble it would save me, I would have sprung for the extra cash. Hell yes. And even if I had thought I could get along without it in a macho fog, do you think after about thirty minutes of chasing the spring all over the garage, I would have zoomed back down to the auto store to gladly purchase that tool?

## **Back-End Sales: Where the Big Cash Hides (11)**

### **What it is:**

When your product or service is delivered, you should have an effective sales letter delivered with another offer. If they like the product, they will likely be in the mood to buy another complimentary or similar product.

### **Important points:**

Direct marketers say it is 7 times easier to sell to a customer than a non customer. You are whetting customer's appetite with the first sale. Later you hit them with better, more profitable products and services. Businesses that don't take advantage of this strategy often struggle because they are always looking for new customers instead of selling to the ones they have. In addition, they are burning up profits in advertising and marketing costs.

In order to make the Big Cash, you need a back-end sales system. Some marketers say almost 70% of all business is lost due to neglect after the initial sale. Once the customer knows you and trusts you they will be willing to spend more money with you. Why shouldn't they, they've done business with you before and there is a bond of trust being developed. Here's where it is important to know your customer and have a customer profile developed (see Customer Analysis).

### **Advantage:**

Here's where the real cash is hidden. Because the heavy expenses of acquiring the customer has already been met, the profit is much higher. In addition, if they like what you have to offer they will be more than happy to spend even bigger amounts of cash with you. This is a gold mine for you.

### **Disadvantage:**

You must find or develop several viable products or services. It must align with the wants or needs they had when they chose to buy initially. Also, you must have an effective direct marketing sales letter. There is an art and psychology to this and you will need a good advertising copywriter. You must develop a system to make this work consistently.

### **When to use:**

When a product is delivered. Either the service or the product. When their products arrive, do you have a prepared sales letter for another product in the package? If you don't, you are missing out on the easiest type of sale.

If you sell a service, what else can you offer them? Can you put them on a contract so you know the cash will be coming in month after month. Even lawn mowing companies put their service on a monthly payment. It makes the bill look smaller and keeps money

coming in during the slower months.

**What you must know:**

You need to know your what motivated your customers to buy in the first place.(See Customer Analysis) Then you must make sure what you are offering next compliments that person's buying profile. Back-end sales pros often sacrifice the first sale to getting the customer. In other words, they don't make a huge profit on the first sale. The first sale is to attract the customer. Other more lucrative products or services are sold once the prospect becomes a customer. It's simply a matter of asking for more sales. The trick is how to do it.

**How to:**

You must spend some time thinking about, searching for, and developing new back end products. Try to imagine or brainstorm products or services your customer might buy from you if they knew you offered them. Some of these products or services may be easy to spot, but don't neglect to some out of the box thinking about back end products.

Look for innovative changes in your field. Are your customers aware of these changes? What new offerings could spring from these new changes?

Think of simple ways to add value to your offerings. Use your customer profile to choose a good product or service. Make sure you use an experienced copywriter who knows how to use sales psychology to close the sale. If you think of the first sale as an appetizer for the main course, you are on your way to understanding this process. The first sale makes them hungry for more.

Air Rite, an air conditioning company in Fort Worth, reaped a gold mine when they started offering "air sealing for the attic and duct systems, installation of humidifiers or dehumidifiers, correcting thermal bypass issues, installing attic insulation and improving attic ventilation." in addition to their normal business of installing air conditioning equipment. Larry Taylor, the owner, says that "equipment is one of the ten things we do." What started out as back-end sales has made Larry a mint.

**Resources:**

On this one you should do some heavy thinking for yourself. Take a close look at what the competition is doing in this area. If they are using this and you aren't, you are losing a ton of cash to the competition, but it's not too late to correct that. If they aren't, and you jump on it, the gold mine is yours.

## Fast Cash the Referrals Way (12)

### **What it is:**

Either a customer or acquaintance leads a new customer to you.

### **Important information:**

This is by far one of the cheapest ways to add new customers. It costs 3 to 5 times as find a new customer as to sell to an old one. Referrals are the exception. They say that one referral from a happy customer is worth 100 phone calls. Tom Hopkins in *Sales Prospecting for Dummies* says the average closing rate for selling referrals is 60% whereas for a non referral it is only 10%. Once called “word of mouth” sales, entrepreneurs soon found a gold mine in using more systematic ways to produce those cash gushing customers. This strategy is now wide spread among sophisticated companies. Adding a referral program to your business will definitely bring out the hidden cash in your business. Should you offer an incentive to customers who send referrals? Studies have found that there is usually no difference if the rewards are small or large, so you don’t have to spend a fortune to make this work.

### **Advantage:**

Truly hidden cash in the bank. Once you have a referral system, you will bring in more cash every month. A client that has been referred is less likely to be concerned about your price and he brings in a level of trust because a friend or relative has recommended you. How powerful can referrals be? Terry Bennett Builders & Remodelers say that 50% of their business comes from referrals. And the cash keeps rolling in.

### **Disadvantage:**

You need to proceed in a way that is not perceived to be pushy. You don’t want to offend your current customer. You need to spend the time creating a program and educating your employees.

### **When to use:**

Always, all the time. This is by far the cheapest and most painless way to build your business. When times are slow and you have extra time on your hands, spend time educating your employees in the art of referrals and networking.

### **What you must know:**

Although some referrals come in simply because someone (you don’t know who) mentioned to some friend about your business, you need a more systematic approach to maximize profits in this area. You must devise a way to capture referrals. Offering incentives is a great way. Rewards and incentives are more effective to bring in people with weaker rather than stronger ties to the customer. So a customer that is really satisfied with your product and service will be likely to recommend this to a parent or brother/sister. For acquaintances, it was found that reward did increase referrals.

**How to:**

In one survey 1 out of 5 micro business owners (very small) say that using incentives to reward customers was their best sources for new customers. Offer customers who send referrals a discount on subsequent purchases. You've encouraged sales and the expense of maintaining a previous customer is small. Send them an incentive or small gift on their birthday. This causes them to think about your business when they normally might not have. It also might spur another sale or another referral. Perhaps they have met other people since last they bought from you and they will want to return your kindness.

Best Practice: Don't ask for a referral right at the time of the sale. Too pushy. The customer doesn't even know if he is happy with your product or service. After 30 days make a phone call. Make sure you have taken care of any problems with the product or service.

Are you the only one in your business that pushes referrals? What about others in the business? Do a session where employees generate a list of employees. Do you hire employees that would be good at seeking referrals? Do you get everyone involved? You may be missing easy pickings and hidden cash because you neglected to ask for referrals from your staff.

Do some role playing sessions showing employees how to do it right. Have a networking expert come in and talk to your group. Offer a bonus each time an employee brings in a customer. Remember the LTV? The new customer is worth far more than the profit you make on that first sale. When employees get a little extra cash for themselves it boosts morale and makes you see like a great boss.

Trust means cash. When you ask for referrals are you also asking for testimonials? One way to build trust is to have testimonials from satisfied customers. One of the biggest hesitations a customer has is whether a business is trustworthy. You can answer that questions with testimonials.

Set a goal. For instance, see if you can increase referrals by 10% within a 3 month period. Check on your progress. If you aren't meeting your goal, you need to adjust your approach.

Find the customers that are the most ecstatic about your business. These are the ones that end up being unpaid salesmen for your business. Take your top 5 clients or customers to lunch or dinner. Ask them this question: "What can I do to get more customers (clients) like you?" Often they will give you some referrals. Notice you didn't pressure them to hand over names. If they don't give any names, at least they may have some good advice or marketing ideas.

Make sure you thank your customers for bringing in referrals. Even if they receive incentives, a personal thank you or a personal thank you letter shows appreciation on a one to one basis.

**Resources:**

*An Easy Way to Get Referrals*

**Larry Bodine**

[http://pm.typepad.com/professional\\_marketing\\_bl/2007/04/an\\_easy\\_way\\_to\\_.html](http://pm.typepad.com/professional_marketing_bl/2007/04/an_easy_way_to_.html)

[A Penny for Your Thoughts: Referral Reward Programs and Referral Likelihood](#). By:  
Ryu, Gangseog; Feick, Lawrence. *Journal of Marketing*, Jan2007, Vol. 71 Issue 1, p84-94.

## **Inactive Customers Mean Cash in Your Pocket (13)**

### **What it is:**

Customers have dropped out of their buying cycle. Check to see how many customers have dropped out of your sales cycle. Your cycle range from a month or a year or longer (car sales). Even with new car sales you don't think in terms of years, because you pursue parts and service. It's cross-selling. Always keep a marketing mind set.

### **Important to know:**

Most companies that have created a program to regain past customers have found cash for their efforts. The program must be set up to be systematic and there are prove ways to draw the customers back in. The fact is that is more profitable to win back an inactive customer than to acquire a new one.

### **Advantages:**

These are customers who once thought favorable of your product or service. They already know your company. Expenses are less than acquiring a new customer.

### **Disadvantages:**

You will have to craft a systematic program that will be ongoing. You must identify when a customer drops out.

**When to use:** Once a customer stops buying, it is time to put your program into high gear.

### **What you must know:**

When the customer drops out. Find out why the customer stops buying. You must establish a series of actions at various points. Establish whether it is profitable to pursue customers after certain time intervals: 1 month, 3 months, 6 months, 1 year.

### **How to:**

If you have a customer database, it will be easy to pull up customers who have become inactive. You must make an attempt to find out why the customer left in the first place. This feedback will make you cash in the long run. It will tell you what your customers are looking for and it can identify areas you need to improve on. Most customers are sympathetic to a business that is willing to improve. Turn offs are businesses that don't seem to care. By asking why they left in the first place, you are proving that you care about them.

Some aspects of your business to inquire about: service, price, product weakness,

problems with employees, forgot about you. Some ways to find out: a telephone campaign, direct mail questionnaire, email, even newsletters that offer a way to contact your company about product or service issues. A good telephone campaign is the best way to find out. Listen closely. Then craft a direct marketing campaign designed on what you learned. Offer a discount on their next purchase. Include a product and/or services list in your mailing. If you produce a newsletter (highly recommended for industries where products and services change fast), send your current copy. Blockbuster offers two weeks free movies for inactive customers. You can access this on the web.

**Resources:**

Targeting Inactive Customers With Postcards  
[Alicia McSorley](#)

[http://www.postcardsmart.com/strategy\\_article13.php](http://www.postcardsmart.com/strategy_article13.php)

<http://www.mybusiness.co.uk/YRfnFKxotKRAKg.html>

## **Customer Analysis: Getting the Whole Pot of Gold (14)**

### **What it is:**

Often entrepreneurs get so caught up in their products or services, they lose sight of what makes their customers tick. Doing an analysis to see who your customers are can boost the profitability of your business and put larger amounts of cash in your pocket.

### **Advantage:**

Gives you a real edge on your competitors who are usually operating half blind in this critical area. Leads to a higher degree of sales due to an intelligent segmentation of your market.

### **Disadvantage:**

You will have to invest some time in this. If you have a slow season, that would be the time to take advantage of this tool.

### **When to use:**

You know you aren't getting what you should be out of your customers.

### **What you must know:**

Some areas you should think about: motivation, profitability, strategy. Do you have a customer profile? Knowing your customer brings in the cash. It makes identifying other products or services they would buy from you easier. It gives you a profile that leads to profitable segmentations of your market and potential new customers. There is real cash in spending time and effort on this strategy. Segmentation is the narrowing of your market into those prospects likely to buy. You don't want to wasting your advertising and marketing budget on segments who are not likely to buy.

If you are selling services or consulting the same idea holds. Do you know enough about your clients to properly identify the segment of your market most likely to buy your services or consulting? Once you know your clients, do you try to cater to their wants and needs? If you do and others don't, who will win the client? Your clients will tell you what they need. Is there a pattern here? If there is, you can bet that most prospects in this market segmentation will have the same needs. Exploit this. If you become customer or client centric, you will be way ahead of most of your competition.

### **How to:**

Do 20% of your customers provide 80% of your sales? If so, what is their profile? If you have their profile, you should aim your marketing efforts at more of this segment. Are some customers simply unprofitable? Don't waste a lot of your marketing budget on this segment. Do you know why your customers are buying from you? It is important to know so you can perfect your sales message. Which marketing channel seems to work best for your best customers? Are some customers not profitable because they are so slow pay, they tie your cash up where you can't spend money on marketing to more profitable customers?

You must capture this information. You can use questionnaires or you can hire marketers to do one on one surveys.

**Resources:**

If you want an excellent but short case study of this type of customer analysis visit the website below. Best Buy uses this strategy extremely effectively. Even though this is a large company, it shows what can be done to ramp up profits and leave the competition in the dust.

<http://www.intelligententerprise.com/showArticle.jhtml?articleID=59301533>

A marketing company that specializes in marketing segmentation for consumers is Claritas. It identifies likely customers by where they live, work, and spend money. They slice customers into 66 clusters and assign them buying traits. You can use these segments to identify a good list of prospects. See their web site:

<http://www.claritas.com/MyBestSegments/Default.jsp>

## Cash Management Tools: Keeping the Cash Available (15)

### **What it is:**

Many banks now offer their corporate customers cash management software to help keep your cash flowing and available. Or you can download software from the internet to help with a cash flow budget.

### **Advantage:**

Using cash management insures you won't be short of cash due to inadequate planning.

### **Disadvantage:**

You need to spend time getting to know the software. But it's worth it.

### **When to use:**

You suspect you should have more cash than you do. Do you have at times surplus cash that can be placed in interest bearing accounts?

### **What you must know:**

Typical software includes help with collections, payments, and liquidity management. You must not only have a cash flow budget, you also need a cash flow projection so you can better plan for your businesses future needs.

### **How to:**

Contact your bank if you feel your business would benefit from this software. Search for software on the internet that has features that would most benefit your situation.

### **Resources:**

Contact your bank.

For a cash flow budget worksheet see:

[http://www.toolkit.cch.com/tools/cfbudg\\_m.asp](http://www.toolkit.cch.com/tools/cfbudg_m.asp)

## **Cashing in on Ratios and One Damn Good Marketing Model (16)**

### **What it is:**

Certain ratios are so important to a business the owner should have a good grip on these at all times. Do you know the Lifetime Value of your Customer (LTV)? If you are in a cash crunch, there is a good possibility that one or more aspects of your company is out of whack. Sometimes, it's only a matter of a little tweaking. For instance, what are your average collections in a period? If they have slowed you could be in a cash crunch very quickly without realizing why.

### **Advantage:**

Ratios give you a reliable and quick way to judge how good your business is doing. In other words, is your business profitable? Through ratios you can tell how profitable your business is at any given period. They can tell you very quickly what area of your business is causing your cash problems. It enables you to make quick adjustments to keep those profits rolling in.

### **Disadvantage:**

Other than spending a little time, there is no disadvantage. You just need to identify the important ones and learn how to use them. Knowing and using these ratios are a must if you want to have a tight grip on the cash flow of your business.

### **When to use:**

At a minimum on a monthly basis if not weekly. Some ratios should be constantly at the back of your head.

### **What you must know:**

Know and apply the following ratios: **LTV, RFM, Return on Sales, Average Collections Period, Inventory Turnover.**

### **How to:**

**LTV:** Lifetime value of a customer. This is important because you want to know how much to spend on acquiring a customer. If you are spending more on acquiring a customer than you are making on a customer, it is time you examined your marketing budget as well as what you are charging. One may be too high and the other too low. If you have not been in business very long, you may have to find an industry average.

### **The formula:**

Estimated Average Lifetime Value = (Average Sale) x (Estimated Number of times customers reorder)

**RFM:** Stands for Recency, Frequency, Monetary Value and is a great segmentation tool. This is one damn good marketing tool and can increase your cash supply like nothing else. This is a model for predicting who is the best prospect for buying your product or service. This analysis tool has been around for awhile yet few marketers understand the power of this model. If you want to reap huge chunks of cash quickly this is your baby. It identifies the “hot” buyers. Knowing this alone can make you a rich person.

Highly successful direct marketers have been using this model for years and making fortunes. It has been proven time and time again that a customer who has made a recent purchase (recency) is a customer who is likely to make another like purchase in a short amount of time. It has also been proven time and time again that a person who buys more than once (frequency) is likely to buy more. And the person who spends the most (monetary value) will like spend more. Using this model direct marketers analyze their customers to make sure they are directing their marketing efforts to the right customers. It is also a highly lucrative move to use this criteria in direct mail campaigns where you buy mailing lists. You will pay more for the “hot” buyers but it has been proven time and time again that this works. Use it.

Take a good look at customers who have bought within 90 days or less. Look for customers who have bought more than once. And look for customers who have spent more than the average.

**Return on Sales:** This will determine if your markup is adequate to make you a profit.

**The formula:**

Net profit divided by sales.

**Average Collections Period:** Keep a close watch on this. If this increases, you can be in a cash crunch quickly. You should be collecting within a time frame of your credit terms + 15 days.

**The formula:**

Accounts receivable divided by (annual net credit sales divided by 365)

**Inventory Turnover Ratio:** If your inventory is turning over too slowly this can affect cash flow. If this ration is too high compared to the industry standard, it may mean you losing sales due to inadequate stock.

**The formula:**

Cost of goods sold divided by the average value of inventory.

**Resources:**

To check out these ratios as well as others visit this American Express site:

<http://www133.americanexpress.com/osbn/tool/ratios/financialratio.asp>

To view industry standards for key industry ratios see:

<http://www.creditguru.com/ratios/inr.htm>

For a good discussion on **RFM** visit this site:

<http://www.jimnovo.com/RFM-tour.htm>

## Potpourri (17)

### **Manage Expenses:**

Do you really need that computer upgrade? Are you paying dues to organizations you don't really participate? Are you subscribing to magazines you really don't need? The point is to take a long hard long at expenses. If you have a growing business, are you using part-time or temporary help? Can you use a service like Paychex or ADP to cut bookkeeping payroll costs? Have a cost cutting brainstorming session. You might be surprised how much cash you can save when you need it the most. If you are a small business owner do you have a formal purchasing procedure in place? Requests for purchasing should be put in writing. There should be a good reason for any purchase.

### **Accounts Payable:**

Don't pay bills before their time. This might leave you short at a bad time. If you're running late, see who adds late charges. Send checks out on Friday to take advantage of week-end float.

### **Break even point:**

Of all the ratios or numbers you should know, one is more important than all others. It is the break even point. Knowing this gives you an indication of where your business stands at all times. Expenses can get away from any business owner very quickly.

### **Pre-payments and COD's**

If you are a consultant, get money up front. You can use benchmarks to get paid as you go along. This way you haven't spent hours and hours on a project not to get paid. This also helps with the cash flow as you don't have money tied up

### **Treat people like human beings:**

This is a no brainer. People respond to being treated with respect and warmth. If people have a choice between spending money with people they like as opposed to someone they think is cold or unfriendly it's almost always the former. There's cash in being polite.

### **Resources:**

**The Best Way to Cut Expenses? Require Employees to Have Purchases Authorized**

04/ 10/ 2006

by Jeffrey Moses

[http://www.nfib.com/object/IO\\_27748.html](http://www.nfib.com/object/IO_27748.html)