

How to Build a Cash Reserve for Your Business

Cash reserves help you get through slow seasons and give you freedom when you want to test new ideas without relying on credit. They play a key role in improving your net cash flow. This guide outlines practical steps to help you build and maintain a cash reserve.

Step 1: Optimize Your Revenue Streams

To save more cash, you need to make more cash. You should:

- **Review and adjust pricing.** Ensure your prices reflect your value, the market, and keep pace with inflation.
- **Reduce excess inventory.** Use online ordering and efficient warehousing to free up cash.
- **Run strategic sales.** Clear out slow-moving stock to generate quick cash.

By implementing a few of these options, less of your cash is tied up in stock that is not selling.

Step 2: Strengthen Your Accounts Receivable

Many small businesses feel uneasy about asking their customers for overdue payments. However, this is money that could be spent on growing your business or getting you through a rough patch. Consider the following:

- **Follow up on overdue payments.** This is your hard-earned cash, don't hesitate to contact customers who owe you money.
- **Set clear credit terms.** Make payment expectations clear on invoices and payment terms from day one.
- **Send invoices promptly.** The sooner they get sent, the sooner you get paid. Consider delegating a person responsible for handling invoices to cut down the chances of misunderstanding or forgotten invoices.
- **Offer early payment incentives.** Encourage faster payments with small discounts or perks. Just make sure these incentives are feasible.

Overall, it's good to develop a firm collection policy. Customers need to know you will consistently follow up. Invest in a good accounting system to help generate overdue payment reports quickly.

Step 3: Cut Unnecessary Costs

Two recurring costs for businesses are phone and internet costs. Check these costs regularly to see you're getting the best deal.

- **Review communication and tech expenses.** Shop around for better deals on phone, internet, and software services. Make sure the quality and service are equivalent or better than your current if you decide to change providers.
- **Cancel unused subscriptions.** Eliminate services you no longer use, including online subscriptions for software or data and servicing of unused equipment.
- **Evaluate staffing needs.** Consider part-time or seasonal help during busy times to manage costs for the slower periods.
- **Review premises cost/benefits.** Do you have unused space you could rent out?
- **Review equipment cost/benefits.** Does your equipment cost more to maintain than it makes? Consider selling or refinancing your business vehicle or equipment with a [UFCU Business auto loan](#) or an [equipment loan](#).

Step 4: Use Technology to Your Advantage

If you're not already, incorporate technology into your process.

- **Automate payments and invoicing.** Using technology for payments and invoices can save time and reduce errors.
- **Consider point-of-sale (POS), mobile, and electronic payments.** This form of payments make it easier for customers to pay you on the spot, allowing you to get your cash faster.

Step 5: Monitor and Forecast Cash Flow

It is best practice to keep a record of how much money is going in and out using a cash flow forecast. Use a [Cash Flow Forecast Template](#) to help you plan ahead.

- **Monitor your net cash flow.** Know where your money is going and ensure you are satisfied with the reasons for spending.
- **Use cash flow forecasting tools.** Plan ahead for slow periods and set aside buffer cash. [Use our free Cash Flow Forecast Template.](#)



Step 6: Reassess Your Business Borrowing

If you already have a business loan, is it the right loan for your needs? Look at your current borrowing and think about:

- **Matching loan types to need.** Use term loans for long-term investments like equipment and lines of credit for short-term dips in cash flow.
- **Considering refinancing or leasing.** You can refinance to free up working capital and reduce monthly payments. Talk to a business loan advisor to learn more about our refinancing options, including a [working capital loan](#).
- **Talk to a UFCU Business Advisor.** Not sure what you need? Get help finding the right financing strategy for your goals.

By Your Side, Every Step of the Way

From business banking to financial planning, UFCU offers the tools to grow your business capacity. Connect with our Business Services team to explore:

- [Business checking](#) and [savings](#) accounts to safely hold deposits and facilitate payments.
- Business loans, including [auto](#), [working capital](#), and [equipment loans](#) to acquire equipment and one time needs.
- [Business lines of credit](#) to provide cash during low sales or to take advantage of discount.
- [Business credit cards](#) to make purchases and defer payment until statement is issued and the due date arrives.
- [Insurance options](#)* to protect you and your business from loss.

Your growth deserves a strong foundation. [Talk to a UFCU Business Advisor and make it happen.](#)

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