

FINANCIAL SERVICES

## How to keep cash flow stable when customer orders are few and far between

December 12, 2019



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Many small business owners are used to playing the waiting game when it comes to getting paid by vendors it is a fact of business life.

But how do you stay in good financial health when your vendors are enormous companies that do everything slowly including buy your products and pay the bills?

Rich Goodell, owner of defense and aerospace software supplier [Beyond Electronics](#) in Raleigh, NC, has some 800-pound gorillas as customers who are vital to the success of his business, but may take months to place orders, and even longer to pay. While he is waiting for payments, Mr. Goodell keeps expenses in check while also using a line of credit to cover bills.

Big clients, big gaps in revenue

"These companies are a lot bigger than we are," Mr. Goodell said of customers that order Beyond Electronics' computer parts and systems.

The technology that Mr. Goodell sells can go into complex systems for everything from missile launchers to bulldozers.

Many of his customers sell to the United States government, so their business depends on federal budget approvals. As a result, it can take months or even years for Beyond Electronics to win contracts.

"Over the past three years, we had only two new contracts, but this year we'll have 10," Mr. Goodell said. "We're a low-volume, high-margin company. That means when large companies want our products, we can charge a decent amount of money but it also takes a lot of work before we get paid. The profits are good, but we have to wait for them."

As soon as one of his customers places an order, Mr. Goodell has to buy parts, which is also a slow process. He and his three employees might have to wait as long as eight weeks to gather the necessary inventory then it takes about 12

weeks to build the systems.

"That's a long time before we can send an invoice, wait for payment over 30 or 60 days, and cover our costs," Mr. Goodell said.

Credit line helps to stock up on inventory

One of Mr. Goodell's primary strategies for bridging the gap between orders and payments is a [line of credit](#). He will use a loan to pay for the inventory, then pay back the loan months later when customers pay their invoices.

The line of credit can also help him stock up on supplies for orders that may be placed months or years in the future.

"One build requires a computer processor that has gone end of life, so we decided to make an end-of-life buy to support our customers for a number of years, which required an upfront investment of about \$50,000," Mr. Goodell said. "This buy enables us to keep building product for at least the next three-plus years."

Another strategy is to ask customers to pay by wire transfer or electronic payments, which can shorten the long wait to get paid.

"The standard payment cycle in our industry is 30 days, and some companies try to push that to 60 days," Mr. Goodell said. "I've found that with wire transfers from some of his larger customers helps, I can usually get paid in 15 days, which is excellent."

Careful planning to avoid expensive surprises

Mr. Goodell has been in the electronics business for nearly four decades, so he has a good sense of the expenses that arise when fulfilling client contracts.

"I try to forecast everything three years out," Mr. Goodell said, since he knows how much parts will cost and how he can pay for inventory over several months or years.

Sometimes, forward planning means reducing expenses, which can be tough when the costs involve employee salaries.

"At one time I had as many as 10 employees, but when the work slowed down, there wasn't enough for them to do," Mr. Goodell said.

Running his business with fewer people helps keep the bottom line healthy and he can bring on independent contractors for a few months at a time when orders are due.

The positive side of cost-cutting, Mr. Goodell said, is that he has learned a lot about keeping cash flow stable.

"During the slow years you cut expenses, and in the process, you learn how to run leaner," he said.

Building strong relationships

Sometimes reducing expenses means negotiating with suppliers.

"We have a few who are willing to stock our parts and only charge us when they deliver the parts to us," Mr. Goodell said. "The vendors will often do this kind of thing to get the business from us, assuming they trust you. Relationships are everything in this business."

IF YOUR BUSINESS depends on extra-large clients that move slowly in terms of contracts, follow Mr. Goodell's advice and play the long game.

Extra planning and outreach to partners and vendors will help you prepare for long stretches where income is thin and help you reap the benefits when invoice payments start rolling in.

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