How Alternative Lending
Can Solve Cash Flow Struggles

National Funding

If there's one ideal small business owners strive to achieve, it's operating with a positive cash flow. Such a situation indicates a healthy business, and having cash on hand to pay expenses and still have some left over to reinvest or save is a dream scenario.

Yet the realities of entrepreneurship do not always allow for such perfect conditions. Even if a business isn't underperforming, external factors like upcoming payments, market disruption or its own customers may force the firm under water for the time being. Furthermore, many owners willingly take the plunge and use it to expand with their eye on future gains.

What this all goes to show is that cash flow is at the root of how a small business functions on not only a day-to-day basis, but also on the long-term arc of its ambitions. However, all too many business owners can testify to the difficulties therein; negative cash flow problems gone unresolved or mitigated can grow to become burdens too great to carry.

There are large-scale changes owners can make, like migrating their business models or targeting new demographics, but the most essential action in many cases is shoring up cash reserves. Having capital is the only answer in some respects, like bills needing payment, and in many other cases is shown to be behind those business pivots.

Knowing the answer is having cash, the question becomes where to get it.

Traditional banking structures are not the default anymore. Limited access given to small businesses, slow response times and high qualification demands have left many entrepreneurs in limbo, searching for a financing option that is flexible to their needs and serving their small business community.

In these respects, alternative lenders have emerged to supply small business owners with the cash flow lending products—like merchant cash advances—they need to keep their businesses running. Here are some of the ways an alternative solution can help solve cash flow struggles:

1. Overcome seasonal challenges

While regular people may suffer from allergies according to seasonal changes, it's not uncommon for businesses to be afflicted with cash flow woes related to the seasons. Businesses that thrive in the summer (landscaping, pool repairs or maintenance) inevitably face a serious downturn when the colder months approach.

Even if some may be able to find a winter fix, like switching to plowing snow, staking the business on the whims of nature can exasperate existing cash flow problems. For instance, those depending on a heavy Chicago 2017 snowfall were sorely disappointed after the usually blizzard-befallen city registered no snow for all of January and February, the first time in nearly 150 years, according to the Chicago Tribune.

Retail businesses are particularly susceptible to seasonal swings in business. However, because owners know the cycles their businesses run along, there's ample time to prepare and plan for cash flow crunches. Working with an alternative lender in the run-up can help ensure a business has enough money readily available to handle tight-margin windows.

2. Finance business upgrades

While businesses can generate considerable success and make a legacy on tried-and-true methods, it's not possible to survive in the modern business ecosystem without constantly upgrading and innovating. That applies not only to products and services being sold, but also to internal improvements—some of which may even be required by law.

Take for instance the trucking industry. Regulatory mandates have previously required fleets to upgrade their vehicles to comply with emissions standards, and a deadline looms for trucks to install electronic logging devices in all cabs to better measure and maintain road safety data. Fleets must not only consider the cash flow implications of researching, shopping for and eventually obtaining a quality, cost-effective solution, they must also factor in the costs tied to training employees on use and best practices.

This is a side of planned business upgrades some forget: There are many other potential costs dependent on implementation. The consequences of not including these variables in costing models may mean the difference between a designed cash flow deficit and an unmanageable situation that sees costs spring forth without any way to contain them.

When planning on the introduction and use of new systems, devices or software, it may be in a small business owner's best cash flow interests to ensure they have enough capital (possibly through an alternative loan) to handle the full scope of business upgrades.

3. Navigate market disruption

Business owners are not always afforded the luxury of such foresight in instances of cash flow complications. One oft-occurring and suddenly devastating strike to cash flow can come in the form of market disruption.

This is a notable risk for businesses to recognize and, if possible, insulate themselves against with sufficient capital.

Taxi and cab companies had no reason to fear for their market position once upon a time, that is, until they had an urgent and overwhelming need to. As soon as ride-sharing companies arrived on the scene, the internet startups generated massive business, and industry giants like Uber and Lyft have since received $1 billion valuations. The market for taxis and cabs will never be the same. Imagine the shock those businesses sustained at the onset of the apps.

The fact is every sector of business is vulnerable to disruptions of this size given the pace at which technology and web-based startups move. But that's not the only threat companies face—new brick-and-mortar competition opened down the street may pose the same danger to cash flow. In this instance, a cash advance that can be dispersed in a matter of days could prove a more tenable solution than applying for and waiting on non-guaranteed bank approval.

4. Prepare pre- and post-natural disaster

Another tight spot business owners may find themselves in is when adverse weather conditions take a toll on the business and its surrounding area. According to the World Economic Forum, a study by the United Nations Food and Agriculture Organization found natural disaster led to $1.5 trillion in damages between 2003 and 2013 worldwide. The researcher said a link was apparent between increasing frequency and severity of natural disasters and economic losses.

In 2012, Hurricane Sandy battered the upper East Coast, causing some $70 billion in damages in addition to loss of life. Business became an afterthought in the immediate time post-storm, but for those that were able to reopen, the obstacles to operations were clear.

The financial loss due to earthquake, tornado, mudslide, hurricane or super-cell storm can be substantial, but there are other considerations in the aftermath. For instance, if a heavy-duty company has spare back-up generators and opts to use them to help provide power to neighbors with no electricity, energy costs that are racked up as a result of a well-intentioned effort may cause a problem down the road in terms of cash flow health. Even those who are in a decent position to manage their business after the storm, may still experience declines in spending as families and consumers regroup. This too can lead to cash flow problems in the near term, and later on if conditions persist—for instance, if part of the population had to move away after the destruction.

5.

Insure against stalled or late payments

It's customary for parties of a transaction to formally agree to prompt delivery of services and then compensation for services rendered. However collecting from customers can be a tricky thing. In a Visa report on small business, the top two most-cited concerns for owners were receiving/collecting payments and cash flow.

A slight hiccup in securing payment can have quite a ripple effect on operations. If, for instance, making payroll or another expense was tied to an incoming payment expected a week prior, and the client (even one with a solid reputation) defers, the whole balance of operations can be thrown into disarray.

An unanticipated hurdle to efficient cash flow, such as chasing down payments, can then spawn other costs: If communicated well, payment may only be slightly delayed, but resources are still expended; in other cases, legal costs may enter the picture. It can be an unnerving and anxious time, waiting on money rightfully due, and in desperate times, owners may need to seek outside flexible capital to stay liquid.

Alternative lenders fill a void

When incurring cash flow problems that have widespread business impacts, owners need to consider all solutions. Left unattended, these disruptions can cause serious harm to businesses that may already be in an increasingly competitive market, amid a resource-intensive expansion or left in a lurch by promised revenue that hasn't materialized.

Traditional borrowing standards require rigorous testing of credit and personal and business qualifications. Plus, even if a small business is approved, it may not receive the full amount it had in mind. Alternative lenders have assumed a position in the market that calls for engaged, flexible and tailored lending solutions. Cash advances are fit for small businesses that may not need much to tide them over, but are scalable regardless. There are many applications for such capital, making alternative loans an attractive tool to warding off cash flow complications.

Sources

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