

Hidden Cash Flow:

4 Scenarios That Are Draining Your Business

BY KIMBERLY DAVIS

The Profit Paradox

You're staring at your monthly statements, and the numbers look good. Sales are strong, customers are paying on time, and your profit-and-loss statement shows you're making money. But when you check your bank account, something doesn't add up. Where's the cash?

This scenario plays out in hearth businesses across North America every month. Companies that appear profitable on paper struggle with cash flow, wondering why their hard-earned profits aren't translating into actual money in the bank. The

problem isn't usually poor sales or bad customers—it's the hidden cash drains that slowly bleed your business dry.

After 35 years in the fireplace and HVAC sector, I've seen these cash flow killers destroy otherwise successful businesses. The good news? Once you know where to look, these problems are entirely fixable. Let's examine four common scenarios that are likely costing your business thousands of dollars every year—and the proven solutions that can put that money back where it belongs.

Scenario 1: The Inventory Trap

When cash flow doesn't match your profit margins, it's time to play detective and solve this financial mystery. The culprit is often hiding in plain sight, quietly siphoning money from your business month after month. In most cases, your first suspect should be inventory—specifically, the excess stock that's quietly draining your cash flow.

Consider this common example: Somehow, you've ended up with six 6" x 6" chimney lengths in your warehouse. Realistically, you might use one of these per year. But because you had to pay your supplier for all six—hopefully on time to maintain good credit—you now own several hundred dollars' worth of slow-moving inventory that could have been working capital instead.

The Result:

Cash gets tied up in products that may sit for years, while supplier payments are processed regardless of actual need. This reduces your working capital for day-to-day operations and adds storage costs with potential damage over time.

The Solutions:

Return excess inventory immediately by working with your supplier to negotiate favorable return terms, even if it means paying freight while they absorb restocking fees. Establish ordering minimums based on actual usage patterns, and remember that your distributors want to partner with you, as keeping your cash flow healthy benefits both parties.

This scenario alone can free up thousands of dollars in working capital, but it's just the beginning. The next cash flow killer is even more insidious because it involves money you've already earned but never collected.



Scenario 2: The Forgotten Warranty Claims

A customer from an installation you completed several years ago walks into your shop with a worn-out stove part. You immediately recognize it as a warranty item, and since the original job went perfectly and you installed everything properly, you hand him a replacement part from your inventory at no charge. The customer leaves happy, and you rush off to prepare for your next job, making a mental note to file the warranty claim when things slow down.

Here's where good intentions meet reality: Days turn into weeks, and that warranty claim gets buried under daily urgencies. What feels like a small administrative task is actually money walking out your door. Instead of a quick 15-minute form submission that puts cash back in your account, you've essentially donated that part to your customer while your supplier keeps their money.

The Result:

Warranty claims get overlooked or forgotten completely, turning legitimate reimbursements into unrecovered costs. Each missed claim represents money you've already earned through proper installation but never collected—like driving down the road with cash flying out your window.

The Solutions:

File warranty claims immediately while the situation is fresh in your mind. Most suppliers offer online warranty forms that take minutes to complete, and if technology isn't your strength, have your sales rep set up one-click access on your computer. When you're rushing to the next job, delegate the paperwork to someone else and follow up to ensure completion. Establish a simple tracking system—whether it's a physical file folder or a line item in your accounting software—and review all warranty and damage claims monthly.

This simple discipline can recover hundreds of dollars per month in legitimate reimbursements, but the next scenario involves an even larger cash drain that happens at the moment of payment.

Scenario 3: The Credit Card Fee Shock

You and your team have just completed one of the biggest jobs of the year. Multiple site visits, specialty trades, complex coordination—but everything went perfectly, and your team is rightfully proud of the achievement. The next day, your customer arrives to pay the final installment: \$25,000. You're already thinking about how this influx will help with supplier payments and maybe even staff bonuses for a job well done.

But when you check your online banking the next morning, the deposited amount is several hundred dollars short of what you expected. After a confused call to your payment processor, you discover the “discount fee”—the 3% to 5% charge for credit card processing that just cost you hundreds of dollars on a single transaction. Suddenly, those staff bonuses don't look so feasible.

The Result:

Credit card processing fees can consume 3% to 5% of your revenue on large transactions, turning profitable jobs into margin-killing surprises. On a \$25,000 final payment, you could lose \$750 to \$1,250 in processing fees—money that should have stayed in your business.

The Solutions:

Establish credit card limits upfront during the sales process, not at payment time. Negotiate specific terms in writing—whether that's accepting credit cards for only 25% of the total job or capping card payments at \$5,000 regardless of project size. Offer cash or bank draft discounts by passing some of the processing savings to customers who choose alternative payment methods. For businesses uncomfortable with payment negotiations, simply build a 4% processing fee into your pricing structure. Most customers won't walk away from a \$20,000 project over \$400 in fees, and if they object, you have built-in negotiating room to offer cash discounts.

These strategies can save thousands of dollars annually in processing fees, but our final scenario addresses the ultimate cash flow solution that most businesses think is impossible to implement.



Scenario 4: The Zero Receivables Revolution

Imagine running your business with virtually no accounts receivable all year long. No month-end calls chasing down payments. No writing off uncollectable debts at year-end. No nonsense payment holdbacks that stretch your cash flow thin. You might think this sounds impossible in today's business climate, but it's not only achievable—it's transformational.

This approach requires a fundamental shift in how you structure payments, but the results speak for themselves. When implemented correctly, you'll become cash flush, your banker will love your consistent account balance, and you'll pay suppliers early enough to capture those 2% early payment discounts. Those stressful month-end collection calls simply disappear from your routine.

The Result:

Collecting payment in full before starting work eliminates accounts receivable, improves cash flow, and removes the risk of non-payment. You'll have working capital to take advantage of supplier discounts, maintain steady operations, and avoid the time and stress of collection activities.

The Solutions:

Establish a policy requiring full payment the day before installation begins. During the sales process, explain that you'll order materials shortly after taking the deposit, outline your deposit refund structure, and clearly state that the remaining balance is due before work commences. Train your entire team on this policy and practice the conversation until everyone feels confident presenting it. When customers express concerns, remind them that most businesses—from grocery stores to furniture retailers to car dealerships—require full payment before customers take possession. You're a reputable business with professional installers, vehicles, and a showroom; emphasize that you'll take excellent care of them while operating sound business practices.

This final strategy transforms cash flow from a constant concern into a competitive advantage, giving you the financial stability to focus on what you do best—serving customers and growing your business.

Putting It All Together

These four scenarios reveal how hidden cash drains can undermine even the most successful hearth businesses. Excess inventory ties up working capital that should be funding daily operations. Forgotten warranty claims forfeit money you've already earned through quality installations. Credit card processing fees silently consume

thousands of dollars annually without proper planning. And traditional payment structures create unnecessary receivables that strain cash flow for months.

Each problem has a proven solution, but the real power comes from implementing all four strat-

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egies together. When you optimize inventory management, capture every warranty reimbursement, control payment processing costs, and collect payment before starting work, you create a cash flow machine that transforms how your business operates. Instead of constantly worrying about money, you’ll have the financial stability to take advantage of opportunities, pay suppliers early for discounts, and invest in growth.

The best part? These aren’t complex financial maneuvers or expensive software solutions. They’re straightforward business practices

that any hearth company can implement starting today. After 35 years in this industry, I’ve seen these strategies add thousands of dollars to businesses’ cash flow while reducing the stress and uncertainty that keeps owners awake at night.

If you’d like to discuss how these strategies might apply to your specific situation, feel free to [send me an email](#). Sometimes, a quick conversation can identify the cash flow opportunities that will make the biggest difference in your business.



Consumers Are Planning—Are You Ready?

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