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Control Your Cash

10-steps to protecting your business from a Cash crunch

SMALL BUSINESS GUIDES

There are not too many SMEs which do not have cash control issues (even crises!). And too many go into business believing that an accounting profit will 'take care of everything", It won't: in small business cash is king. This guide will become an essential guide for the cash flow of your business.

An accounting profit is an important guide to how well your business is travelling, but it is the cash flow statement which determines its ultimate survival and health. The business could be making a profit on paper and still be headed for insolvency. If what is going out every week exceeds what is coming in at the bank then trouble is brewing. Few SMEs are adequately capitalised to be able to handle a cash flow drain on their resources (cash and lines of credit).

Here are 10 rock-solid, proven tips for getting control of your cash flow and keeping it under control:

1. Do a cash flow forecast

The forecast should inform you who you are paying, when the payments are due, who is paying you and when that's coming in. The forecast also sets out all your costs for the months. A good forecast model can anticipate problems so you can take action to prevent them.

It can be used to develop assumptions on sales, costs, credit and funding to produce monthly cash flow projections well ahead and assess the impact of cash flow on future sales, costs and credit terms and replacement of assets, such as computers, furniture (for example café or restaurant), tools and machinery.

Don't know where to start? Ask your bookkeeper to help you build a cash flow forecast. It will be the best investment you've ever made!

2. Time your invoices

It's too easy to put off doing the admin, preparing the invoices and sending them off. A key to cash flow management is to invoice more frequently. If you were doing it on and end-of –month basis until now; change to weekly. If you were doing weekly, change to daily. Consider if you have $30,000 a month coming in and you don't invoice it for two weeks, that's actually $60,000 less in working capital you have to work with.

The golden rule: invoice as soon as the job is done or the goods shipped out.

3. Take payment up front

Many law firms do it; kitchen cabinet suppliers do it. Many businesses take money upfront for the job. It may be a deposit or it may be the whole amount but depending on your relationship with customers, the strength of your business and the particular job, it pays to collect money upfront.

Most obvious is the deposit. Advertising agencies for example may work on 25% deposit up front and some suppliers of goods want 40 percent of payment up front and the balance on the work being completed.

4. Triage payments

This is typical of the building and construction industry where payments are staggered across the process. This is often in keeping with bank finance arrangements. The first payment comes when stage one is completed, the next when the second is done and so on. This makes cash available for resources needed to complete the work.

5. Reward early payers

Some businesses offer incentives for early payments, such as 2 per cent off the price and up to 10 percent in some cases. Some offer discounts for payments several months in advance.

This brings in cash sooner and when you need it, compensating for a lower margin on the job.

6. Avoid paying in cash

Many small business owners have cash in their businesses arising from cash payments from customers. This is bets avoided as it can 'slip between the fingers".

As soon as cash comes in, bank it. Ensure that all payables are done electronically by EFT where possible. Whenever possible, use a business credit card for travel, meals and minor expenses. This leaves more cash in your hands and defers payment. If you stick with due dates on your credit card and pay balance in full, you will avoid high credit card costs and give yourself interest free loan.

7. Manage your receivables carefully

Create a schedule of what's owned and stick to it. Call in overdue accounts and make sure you understand the debt recovery procedure. Debt collection agencies such as Prushka can provide a pro forma letter for late payers.

You might also consider adding a late payment fee for the account.

8. Monitor inventory

Remember that inventory consumes cash. You have to purchase it before you can sell it and regardless of whether or not you sell it, your vendors will want to be paid.

Every dollar you spend on inventory is a dollar less cash.

9. Stay on good terms with your bank

If you know you are in for a short terms cash flow shortfall, make sure you have a plan and keep the bank in the loop. (Have you bookkeeper prepare a cash flow forecast and monitor it closely)

10. Time your payables

Best to negotiate with suppliers upfront: negotiate terms to stretch the payment terms as long as possible. By doing that, you are creating an interest-free line of credit.

At the same time, however, don't do this at the expense of a solid relationship with suppliers. You need to work with them and talk to them often.

If there is a real cash crunch, don't hide it from suppliers, talk to them. What can happen is that people try and keep juggling the cash flow: chasing debtors and squeezing their suppliers. Or worse, borrowing on the credit card.

You are always better off negotiating with a supplier. It's when you develop a kind of mental obstacle and keep a lid on things that suppliers will become adversarial. When we go on too long we feel that we cannot deal with a supplier.

But I have found that if say to a supplier something like "I can't pay you right now but will pay this off over the next say 6 weeks. In future I can pay you cash." Or you could say that you would pay weekly with say 10% off the outstanding bill.

That supplier this becomes a lender. In these terms if it is a company and if a cash crunch is being experienced then it no longer has the liquidator taking the debt into account

There are rules for cash flow. They will vary from business to business but generally, most companies adhere to these variations of them. Cash flow makes the difference between good and bad business.