how to

manage your cashflow

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As a growing business, it's important to understand the ins and outs of maintaining a healthy cashflow. To give you a helping hand, here's our quick guide to the basics.

What is cashflow?

Simply put, cashflow is the balance of payments coming in to your business to those going out. Incoming payments include any sales of products and services, income from investments, and money coming in from any outstanding customer accounts. Payments going out could be taxes, wages, raw materials and expenses that you need to run a business smoothly. Managing cashflow is the most important part of running a business, particularly for small and medium sized businesses.

Why is cashflow so important?

While the primary goal is to ensure your outgoings are constantly balanced by inflow, you need to be prepared for cashflow gaps and large or unexpected expenses. Carefully monitoring this movement is essential to long-term survival. The immediate benefit is that you're less likely to get into trouble because you'll have all the information you need in the event of an audit.

There are more advantages to good forward planning, such as the ability to spot opportunities for debt reduction, and at the same time improve your credit score and ultimately grow your business.

What is a credit score?

A credit score is a measure of how individuals or businesses are perceived by lenders or other businesses. A high score indicates a low financial risk, whereas a low score suggests that they are less financially stable, or more likely to default on payments. In the UK, scores are compiled by three major credit reference agencies.

Contrary to popular belief, whether you're eligible for credit or not isn't simply a tick in the box. Lenders may use information from a credit reference agency to generate a credit score, but then each individual lender has it's own criteria, depending on the product or service concerned. An application for a business mobile phone for instance, may be scored differently than one for business credit with a stationer.

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How can my credit score affect my cashflow?

A credit score can affect the way your clients and suppliers perceive the integrity of your business. This means that they may choose not to deal with your company if your score doesn't meet their criteria.

With a high credit score, your suppliers are more likely to extend you more time in which to pay their invoices. Plus, applying for credit in the future will be easier, even if it's not something you've considered before.

Are my customers a cashflow risk?

Great customers aren't just the ones you know on a first name basis. Finding out more information through a reputable credit-scoring agency can give you an invaluable insight into their financial stability and legal status. This will alert you to any negative information such as County Court Judgments (CCJs) or petitions. On the positive side, looking into your customer base can help identify opportunities to up-sell products and services to those who stand in good stead.

How can I ensure that new customers are good payers?

Being paid on time for products and services can be crucial to survival, especially for those who don't yet have a fallback fund. That's why screening potential clients and understanding their credit score can identify those with a propensity for paying late, or are at risk of going out of business. It's also a great tool to keep you better informed about the quality of your new customers.

47%

of small and medium enterprises consider cashflow to be an obstacle to success*

* BERR SME Business Barometer 2009

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How can I manage my cashflow better?

1. Set appropriate payment terms for your clients and suppliers before you accept or place orders with them. It can be useful to build in some breathing space by negotiating longer payment terms with your suppliers than the terms on which your customers pay you. It's also worth standardising payment terms as best you can to streamline administration.

2. Look after your credit score and protect your company's financial history by ensuring that all outgoings are paid on time. You could obtain your business credit report from a credit reference agency to see what your potential lenders are looking at. Make sure you use a reputable, regulated company for this information.

3. Invoice quickly and collect efficiently to reduce the gap between invoicing and being paid. Try to make allowances for logistics like shipping and handling or delivery of your service which may have a knock-on effect on your cash inflow. You may also want to check if your terms and conditions cover your legal right to make late payment interest charges on your invoices.

4. Consider taking out credit insurance to protect yourself against non-payment by your customers due to insolvency. This is particularly important when both you and your customers rely on credit terms for survival. This reduces the risk of putting your company into debt, which can help your cashflow by making finance more readily available to your business.

How do I get in touch?

To find out more about how Experian can help your business, please visit

www.experian.co.uk/small-business

Look out for our other guides on...

- How to find finance more easily
- How to improve your credit score
- How to check out your suppliers
- How to recruit good people without risk
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