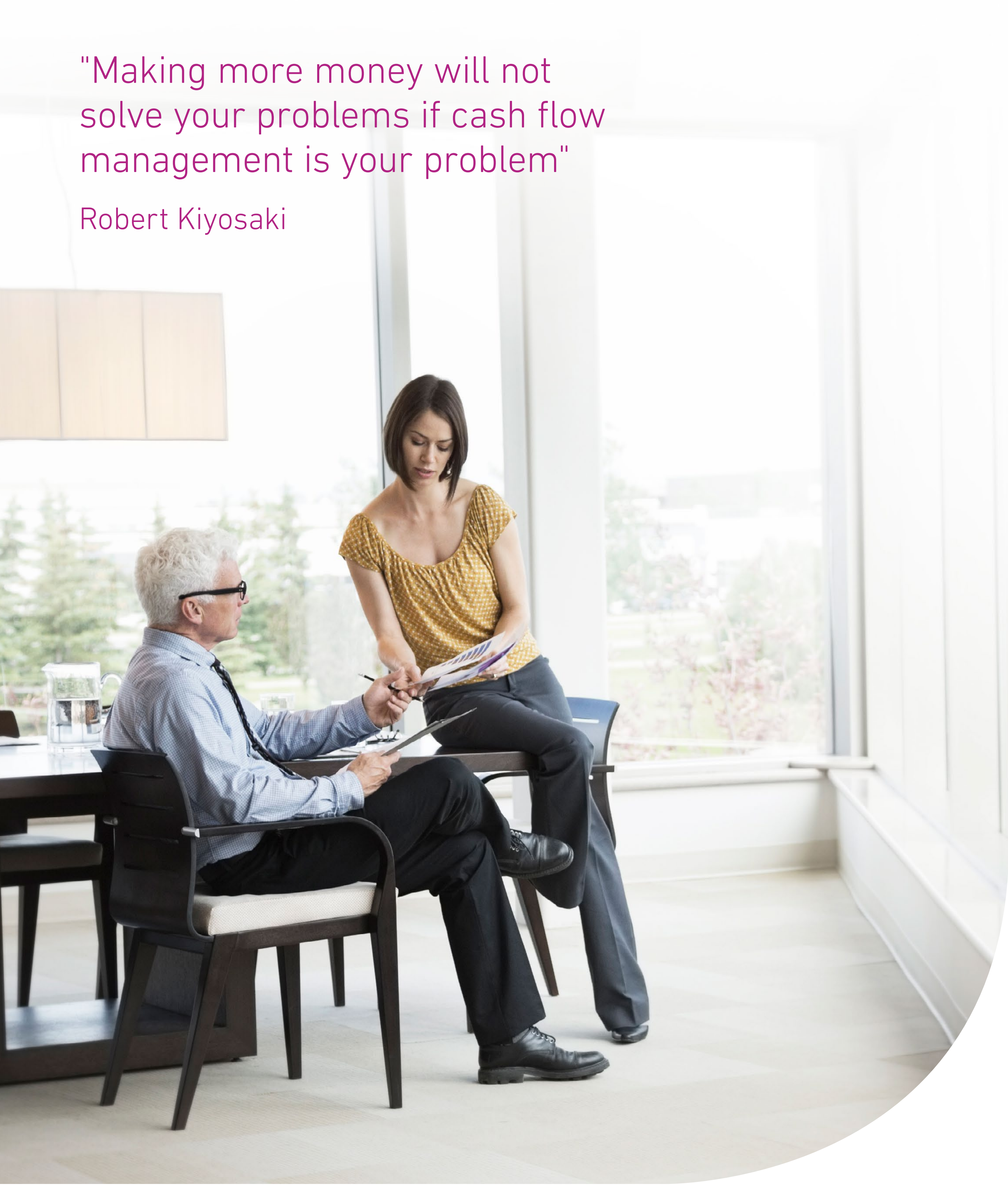
White Paper

Managing cash flow for your business

"Making more money will not solve your problems if cash flow management is your problem"

Robert Kiyosaki



What is cash flow?

Your **cash flow** is essentially the money that goes out in bills and business expenses versus what comes in to your business via sales and investments. Careful management of this doesn't need to be complicated at all but it is absolutely key to the success and indeed, survival of your business.

It doesn't matter how much profit you're making, if you have no cash in the short term, then you can't pay your bills and you could go out of business. By **managing your cash flow** you will always know if you're running at a surplus or deficit and can take action accordingly. It can be tempting just to focus on what revenue your business is making but if your expenses exceed it then even if your revenue is high, your business will still have problems. Equally, revenue doesn't equal cash in your account until it has actually been paid to you. So your accounts may appear healthy because you've earned a large amount of revenue, but your cash flow may still be negative because you haven't been paid yet.

10 tips for managing your cash flow effectively

1 Set a budget

Creating a budget is an important foundation for any business. By forecasting what you intend to spend and earn, you can determine ahead of time whether you have enough money for certain projects. From the outset you can identify whether your business costs and revenue streams are setting you up for a positive or negative **cash flow**. If it's the latter of course, then you are able to act, make changes and give yourself a better chance to stay positive.

Setting Cash Flow Goals
Once you have a really good understanding of how much money you have going out and how much you need to collect in order to maintain a positive cash flow, you can set cash flow targets to help stay on track.

2. Keep records

Of course, creating a budget and setting goals is all well and good, but if you don't track your performance then your targets become meaningless. Once you have clear **cash flow** targets in place, you will need to keep records and review them regularly to identify any potential problems that will need addressing.

Examples of key data you should track are:

- Income
- **Uncollected cash**
- Monies owed
- Regular expenses
- Available cash
- Inventory
- Individual revenue streams – which are making a profit, which are struggling etc
- Gross profit
- Net profit
- How are you tracking against the previous year and previous quarter?
- How are you tracking against your competitors?

Where possible, seek your accountant's support in creating a reporting system for your business.

3. Regularly review your spending

Cash flow isn't just about the money you have coming into your business, the money you're spending plays an equal role. Make sure you conduct regular reviews of your spending to identify areas where you may be able to cut costs. Here are a few areas that you can focus on;

Energy savings:

Are your buildings energy efficient? Are you and your employees energy conscious? Simple things like ensuring everyone powers down their equipment at the end of the day can make a big difference over the course of a year.

Paper usage:

Here again, **small changes of habit** can make big savings. Make sure your printing and copying is double sided, where possible, send things digitally and encourage employees to re-use rather than throw away scrap paper.

Travel:

Can some business travel be reduced? Perhaps you can make use of video-conferencing services instead. Where travel is necessary, look at cheaper options, such as switching from first class to standard or from that 5 star hotel to a B&B.

Systems and equipment:

Do you have old systems that are no longer efficient? Do you have manual processes in place which could be automated to save costs? While the initial costs of replacing systems may seem counter-intuitive to the idea of 'cost cutting', in the long term, the savings will probably be worthwhile.

4. Credit control

A robust **credit control** process will play an important part in your overall cash flow position. It is with credit control that you can impact the speed at which you receive your monies owed and so swing your cash flow from deficit to surplus. Credit control is basically putting processes in place to ensure you get paid – and **paid on time** as much as possible! There are five key areas that your credit control process should focus on;

Choosing the right clients

Before working with any client, it makes sense to do your **due diligence**. If you can check up front how likely they are to be able to pay you on time, then why on earth wouldn't you? Running **credit checks on potential clients** is a great way to weed out potential financial risks before they happen. You can make sure that you only deal with clients who are most likely to pay on time and pay in full.

Setting clear payment terms
Once you've done your checks and have decided to work with a client then set out clear payment terms up front. Set expectations so your client knows exactly how much they need to pay you, when they need to pay and (perhaps most importantly), the consequences of late or non-payment.

Where you're selling something of high value, consider offering payment plans which allow your client to spread the cost. This makes it easier for them to pay but also ensures you have regular cash coming in rather than sporadic lump sums.

Make sure your client agrees to your payment terms and you have all the terms and conditions written down before moving forward.

Invoicing promptly
After setting expectations with your client, it's important to follow through. Send your invoices promptly so that you're not creating any delays when it comes to receiving your payment.

Make it easy for customers to pay you
The next stage is to make it as easy as possible for people to pay you once they have received your invoice. People don't like hassle – in fact they'll often go a long way to avoid it! By making it as convenient as possible for your customers to pay you, you can prevent a good proportion of late and missed payments. These days, online payments are a good way to go. It's quick and simple for your clients and ensures the funds arrive in your account as quickly as possible.

5. Staff training

Putting processes in place to improve your **credit control**, your budgeting and your customer due diligence can have a significant impact on your **cash flow**. However, if your staff aren't trained in these processes then the system will fall down and your cash flow will inevitably suffer.

This point doesn't just refer to training staff about cash flow directly. Staff training in general will have a huge impact on your business **cash flow**. Staff who aren't trained properly won't be efficient and may even be a compliance or injury risk. According to Spearhead Learning, last year £950m worth of compensation was paid by employers due to claims resulting from inadequate training(1).

6. Diversify your revenue streams

In other words, don't put all your eggs in one basket. If you are too reliant on one specific client or revenue stream, then this causes a potential risk to your cash flow should that one client go out of business or your single revenue stream hit problems.

By creating a number of revenue streams and working with a variety of clients you can spread your risk and any negative impact to your cash flow.

7. Make use of technology

An awful lot of the stress of managing your cash flow can be removed with technology. These days there is a huge range of accounting software and apps that make cash flow management simpler and more convenient. Making use of this software will not only save you time but allow you to manage your **business finances** from your laptop, tablet or phone. The software needn't be pricey and will often make up for its cost in time saved (not to mention stress!)

8. Maintain good business relationships

Relationship building plays a core role across all aspects of running a business and cash flow management is no different. There are a few key stakeholders to consider who can have a significant impact on your cash flow;

Your suppliers

Keeping on good terms with **suppliers** could allow you to negotiate more favourable terms for your own payments. Rather than paying over one month, perhaps you could spread the costs over three, ensuring your cash stays in your account a bit longer.

Your lenders

If times do get tough, then a healthy relationship with your **bank** and lenders will make it much easier to approach them for help whether that be in the form of a loan, reduced payments or extended terms. They will want to see that your records are up to date and that your credit history is good so make sure you check your **business credit report** regularly to avoid any nasty surprises.

Your clients

If you show that you're willing to be flexible with your clients and can build a positive relationship with them then they will be more inclined to make your payments a priority. They'll also be more inclined to work with you again!

9. Know the warning signs

If you've created a budget, set clear cash flow targets and stay on top of your reporting, then you'll be well placed to spot any signs that your **cash flow** might be struggling. Here are some warning signs to watch out for;

- Your business is making late or missed payments
- Your unpaid invoices are mounting up
- You have a negative cash flow
- You're missing discounts on accounts payable
- You're constantly having to juggle funds around to cover costs

10. Seek help before things go too far

Once you start to see the warning signs above, it's time to take action! Look at what you can do internally, in terms of cutting costs, tightening your credit control processes and diversifying your revenue streams. If that's not enough, then don't be tempted to bury your head in the sand. Stay in close contact with your bank, your accountant and your financial advisers and make sure you get the support you need straight away.

Cash flow management checklists

As we've discussed, your cash flow is essentially measured by the amount of cash you have coming into your business versus the amount going out. It's safe to say then, that the three key areas that determine whether you have a healthy cash flow are;

How much money you're generating

How much money you're actually being paid

How much you're spending

Let's focus then on what you can do to make improvements in each of these areas...

Generate more money

- Diversify your revenue streams
- Improve your existing products and services
- Build client loyalty to encourage repeat business
- Provide great customer service to encourage client advocacy
- Extend your reach through marketing, advertising and PR
- Look for opportunities to cross and upsell your products and services based on your clients' buying habits
- Rent out extra office space
- Consider a loan
- Crowdfunding
- Increase your prices

How to prevent and deal with late payments

- Make use of credit checks to reduce financial risk
- Set expectations by communicating your payment terms clearly
- Offer payment plans
- Invoice promptly
- Make payment easy
- Automate late payment chasers
- Consider offering incentives for early payment
- Enforce penalties for late payment
- Maintain a healthy relationship with your clients
- Consider using a debt collection agency as a last resort

How to be more efficient

- Be energy efficient
- Negotiate better rates with suppliers
- Reduce your office space
- Reduce travel costs by making use of video conferencing where possible
- Review marketing costs and cut inefficient channels
- Manage your time efficiently
- Make use of automation where appropriate
- Avoid needless costs such as compensation, fines and charges with robust processes and staff training
- Upgrade inefficient and out of date equipment and software
- Regularly review and cut unnecessary spending

Sources:
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2. Spearhead eLearning - [online] https://spearheadelearning.com/are-your-staff-trained/

Registered office address:
The Sir John Peace Building, Experian Way,
NG2 Business Park, Nottingham, NG80 1ZZ

www.experian.co.uk/small-business

CM - 518 - 0178