SEVEN
WAYS TO MANAGE YOUR CASH FLOW

A PRACTICAL GUIDE

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SEVEN WAYS TO MANAGE YOUR CASH FLOW

1. ANALYSE YOUR CASHFLOW
2. DEVELOP A STRATEGY
3. COMMUNICATE REGULARLY WITH CLIENTS
4. DEAL WITH POOR PAYERS - GET TOUGH
5. RENEGOTIATE CONTRACTS AND BE FLEXIBLE
6. WATCH WHAT YOU BUY
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INTRODUCTION - WHAT IS CASH FLOW MANAGEMENT?

Cash flow management is one of the most important aspects of running a business. Poor cash flow management has become one of the major causes of business failure over the past two years, regardless of how good the business service or concept is.

Many people blame poor debtor form or a lack of bank credit for cash shortages. Granted, getting payment from debtors has become increasingly difficult, but there are things that you can do to improve your current finances, whether that's by reducing outgoings or increasing your income.

It is important to remember that cash flow is not profit, but simply the money that runs in and out of a business. It comprises the cash that you need to pay bills such as payroll, rent or for supplies, and it is the money that you receive from customers or tenants, for example.

Cash flow management, on the other hand, is the process of monitoring, analysing and in turn adjusting your firm's cash flows. Cash flow problems arise when there is a big gap between the money that you are receiving into the business and the money you are paying out.

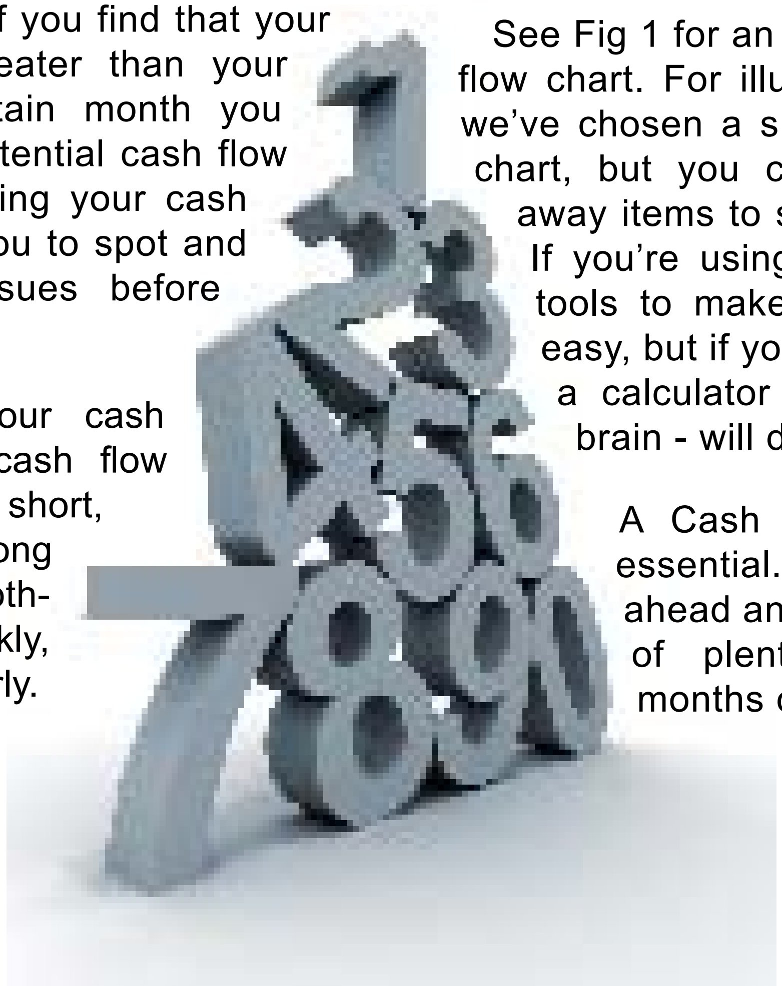
If you find it difficult to pay your debts, whether big or small, you will find yourself in serious trouble.

1. ANALYSE YOUR CASH FLOW

Be aware of any changes to your business that may alter your cash flow. Don't close your eyes to any problems that are arising. Instead, constantly analyse and keep a close eye on your cash flow. Identify any potential problems and take steps to prevent them.

For example, if you find that your bills will be greater than your sales in a certain month you could have a potential cash flow problem. Analysing your cash flow will allow you to spot and prevent any issues before they arise.

To analyse your cash flow, create a cash flow forecast – for short, medium and long term periods, in other words, weekly, monthly and yearly.



Using Microsoft Excel, you can simply list the money that is coming in and going out of your business in any given month. On the IN side, type in fees/sales. On the OUT side, place outgoings such as vehicle tax, petrol, purchases and so on. If technology isn't your thing, an old fashioned ledger will do.

See Fig 1 for an example of a cash flow chart. For illustrative purposes, we've chosen a simple, easy-to-use chart, but you can add and take away items to suit your business. If you're using Excel, there are tools to make adding up totals easy, but if you're unsure of this, a calculator – or simply your brain - will do.

A Cash Flow Forecast is essential. It helps you plan ahead and use your months of plenty to cover the months of little.

Joe Bloggs Limited
Cash Flow - 1 Month Forecast

	Week1	Week2	Week 3	Week 4	Week 5	Total
Cash Incomings						
Fees/ Services/ Sales	0	0	0	0	0	0
Rents	0	0	0	0	0	0
Commission	0	0	0	0	0	0
Total Cash	0	0	0	0	0	0
+/- Adjustments	0	0	0	0	0	0
Total Cash Income	0	0	0	0	0	0
Cash Outgoings						
Wages	0	0	0	0	0	0
Petrol	0	0	0	0	0	0
Vehicle Tax	0	0	0	0	0	0
Pension	0	0	0	0	0	0
Light, Heat & Phone	0	0	0	0	0	0
Rent & Insurance	0	0	0	0	0	0
Waste	0	0	0	0	0	0
Advertising/ Marketing	0	0	0	0	0	0
Sundry	0	0	0	0	0	0
Total Outgoings	0	0	0	0	0	0
Cash Balance	0	0	0	0	0	0

2. DEVELOP A STRATEGY

While many small businesses and owner managers run at the sight of the word 'strategy', the term need not be a dirty word. Developing strategies doesn't have to involve using difficult business terminology nor complicated equations. Instead, it can be as simple or as complex as you want it to be. It can be written down on the back of a notepad or prepared formally. The important thing is that it exists in writing.

Your cash flow forecast will play an integral part of the business strategy. Look at the forecast, and examine if you have bad/ good weeks or months.

If you have a particularly good month, then try to carry that extra cash over to the following month and so on. If the bad month comes before the good month, juggle around your cash flow to make sure that you won't be stuck in any particular month. And if you've several bad months, start looking at ways of reducing cash outgoings. Examine every little detail of those outgings right down to your paper and ink purchases.

> **'Writing down how you're going to turn around your cash flow can make a huge difference.'**

Writing down how you will turn around your cash flow in a simple way can make a huge difference. Don't be too stringent in your plans, and allow for changes as they arise.

A forecast will help you plan when your suppliers will get paid; it will allow you to look at all expenses; and it will help you set into motion the ways in which you will keep the cash flowing throughout your business.

3. COMMUNICATE WITH CLIENTS

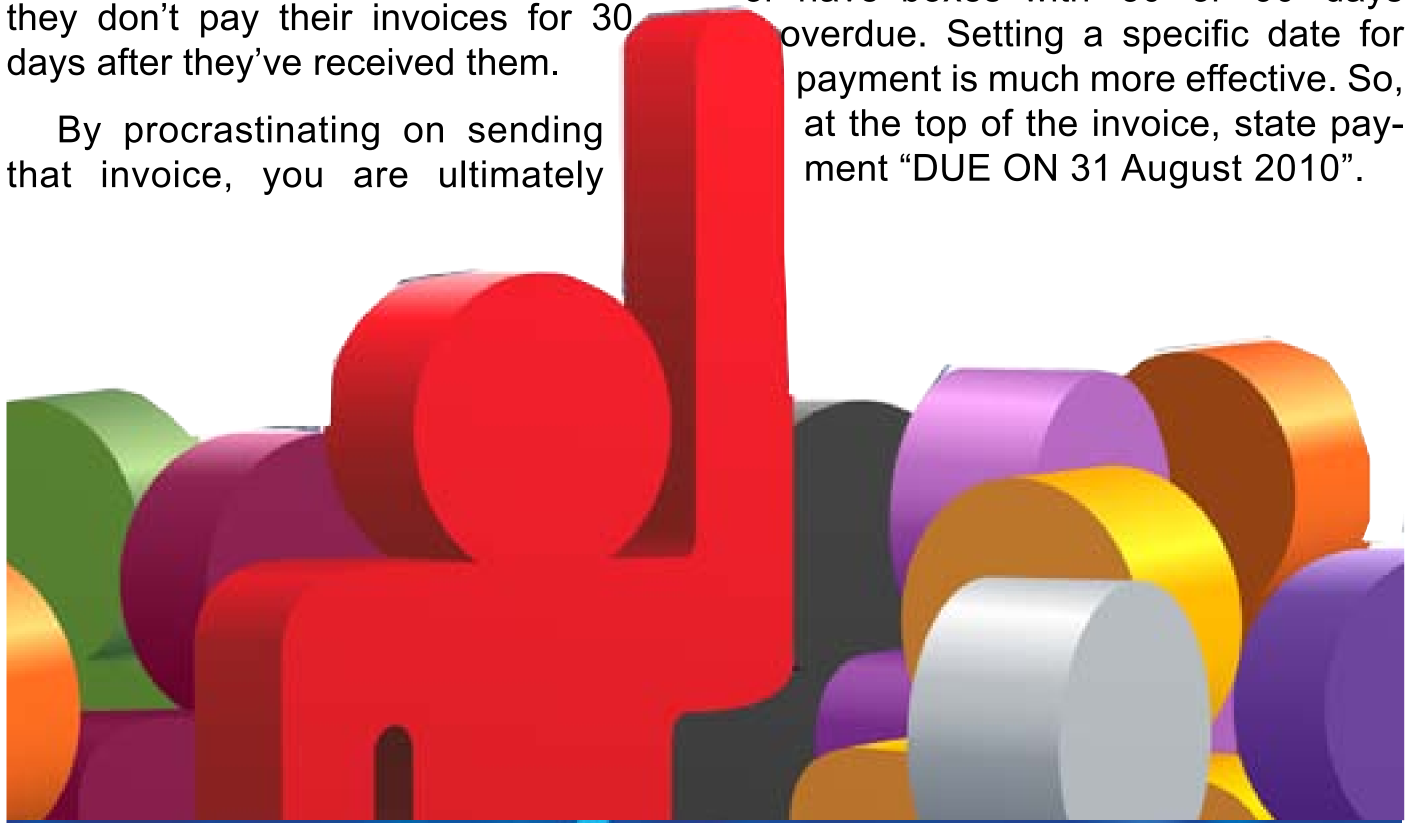
Why put off until tomorrow what you can do today? Too many small firms fall down in the area of invoicing. They hesitate when it comes to invoicing clients, eventually sending clients huge bills for months of work, which the clients in turn would rather ignore than pay. Very often companies will pay smaller bills as they feel the pinch less.

To shorten your cash flow conversion period, prepare customer invoices straight after you've delivered the goods. Many companies have a 30-day payment policy in place; in other words they don't pay their invoices for 30 days after they've received them.

By procrastinating on sending that invoice, you are ultimately lengthening the time it takes for you to get paid.

Another thing that all companies should remain on top of is sending out statements. Some firms won't pay upon receipt of invoices but will wait for the monthly/ bi-monthly statement. Therefore, it is essential that you send out those statements on a regular basis.

You should never send out an invoice or statement without requesting a payment date. Many firms will ignore invoices that simply say 'payment due', or have boxes with '30' or '90' days overdue. Setting a specific date for payment is much more effective. So, at the top of the invoice, state payment "DUE ON 31 August 2010".



4. DEAL WITH POOR PAYERS

Manage your customers' credit by weeding out those who cost more to maintain than add to your bottom line. Keep an eye on those who have a history of slow payment, and for those who are poor payers, look at changing the credit terms or, if necessary, eliminating credit for them.

Communication with poor payers is particularly important. Pick up the phone or get your credit department to speak to clients. Don't be afraid to get the message across that non- or slow-payment is not acceptable.

If your customers are finding it difficult to pay then come up with solutions to encourage them to start paying. Offer them a discount for paying their invoices early, for example.

So, if your credit period is 30 days, customers will receive a 3 per cent discount if they pay within 10 days of the invoice date. With more and more people looking for bargains in the current business environment, this will work!

While every customer counts, don't be afraid to get tough with the non-payers. Actively pursue collections. However, always delegate that pursuit to a member of your accounts staff or assistant-manager.

This will leave room for the client to talk to someone more senior if they want to negotiate payment terms and to save face.

However, if you still fail to receive payment, write them a letter. And be firm. Explain that you must be paid to ensure continued service, and that failure to pay will result in your turning over the debt to a collection agency. You'll be surprised at the amount of people who reply to a firm-handed letter requesting payment. See our sample letter across the page for an example. And send yours on!

Sample Letter

Joe Bloggs Ltd,
123 ABC Lane,
Dublin 1.
14 May 2010

Mr Client Ltd,
456 DEF Street,
Dublin 2.

REF: Overdue Account: agreement between Mr Client Ltd and Joe Bloggs Ltd

Dear Sirs,

We refer to our statements dated 28 February, 31 March and 30 April, and note that we have not received payment for any of these, despite numerous phone calls, letters, visits to your office and promises by your agents/ employees to sort out this matter.

At present, we are not aware of any reason that should prevent payment of your account, and therefore request that you kindly arrange for payment of the outstanding sums to be made to us within 7 days from the date of this letter.

Please note that non-payment amounts to a breach of the payment terms under our agreement, and we therefore reserve our position in respect of our contractual remedies, including but not limited to:

1. **Charging interest on the outstanding sums from the due date of payment and;**
2. **Our right to terminate our service agreement should you fail to make payment in full.**

In addition, we may seek to commence legal proceedings against you to recover the overdue sums, plus costs and interests.

If you do have any dispute in respect of this matter, or have already sent payment to us, please contact me immediately at the contact details above, so that we can take the necessary steps to ensure that our service continues without interruption to you.

Yours faithfully,

John Smith
Senior Credit Controller.

5. RENEGOTIATE CONTRACTS

If customers approaches you, saying they cannot pay their arrears but want to still use your service, you should consider accepting immediate payment on new services and working towards slowly clearing arrears. For example, suggest your clients set up a monthly direct debit. You can then agree with them a payment schedule for the remaining arrears.

Remember, by having invoices paid directly into your bank account, you will cut down on the length of time it takes for the cheque to come through. Be clear and concise about the new terms of the contract. Get it in writing.

> ‘Be clear and concise about the new terms of the contract. Get it in writing.’

With regards to your cash outgoings, approach your creditors and ask them to renegotiate the payment terms in your contract. You will be surprised at how productive a simple phone call can be – it could save you hundreds if not thousands of euros in a matter of minutes.

If your supplier is reluctant to change the payment terms of your contract, exert some polite pressure on them, but don’t go overboard!

In addition, consider a range of potential changes to the contract. Price reductions need not be the only way to go. You can extend payment terms or offer more products at the same price such as buy 10 get 1 free offers.

Renegotiating contracts with employees is one of the obvious ways of improving cash flow, but this can be an incredibly difficult task to do for even the most hard hearted of employers. When times are tough, staff can agree to accept a 3, 5 or 10 per cent reduction, but you should only approach them when all other avenues have been exhausted. Other options can include offering short-time working or three-day working weeks. However, you must be open with your employees about your reasons for the move.

6. WATCH WHAT YOU BUY

While under-purchasing is never encouraged, do not over-buy in the current market. Yes, you must have a sufficient quantity and variety of goods in stock to meet customer demand. If you don’t keep clients and customers happy you could lose them, so ensure that you have a sufficient amount of stock or supplies to continue to run and maintain your business.

However, excess stock could become obsolete – particularly if you operate in the technology arena where new equipment and machines are introduced quite rapidly. Likewise, excess stock can go unsold, and ultimately will eat into your resources.

Having stock sitting in your store or warehouse is the equivalent to having cash sitting on your shelves. By putting a just-in-time strategy in place you will have goods delivered to you as they are needed. Of course, there will be exceptions to this rule if you receive discounts for buying in bulk, but don’t get over-excited at the idea of a discount and buy unnecessary stock.

Reducing your inventory can be simple. If you own a restaurant, for example, cut down on the range of wines you offer and instead focus on quality and value wines. Always be mindful not to decrease the quality of your product or service when reducing costs.

Also, put off large, unnecessary purchases to cut down on costs. Times of cash flow crisis are not ideal for experimenting too much with products. Aim to cut down on expenses in order to have more cash at your disposal.

7. LOOK AFTER YOUR OWN DEBTS

Overdrafts and credit cards have unfortunately become a way of life for many modern small firms. Whether, it's in our personal or business lives, both should be avoided. One very "successful" accountant, 10 years in business, once admitted that he still operated on an overdraft. It simply doesn't add up!

In order to avoid entering the red, cash flow management is essential. While you can do many things to encourage clients to pay their debts quickly, also look at how you manage your own debts.

Open your bank statements and examine them. By joining the world of online banking you will have instant access to your bank statements, and will become more hands-on when managing your firm's money.

Pay your bills when they're due, but don't be overenthusiastic by paying them beforehand. Check out the credit terms that your suppliers allow; if they allow for 90 days, then hold off payment until then or until you have more cash in the pipeline.

Consider consolidating your debts, such as equipment loans, overdrafts or car loans. Review the rates of your loans and the terms of each one. While stretching out loan payments isn't ideal, consolidating your debts will ultimately lead to lower monthly payments. Finally, if it is warranted, increase your fees or pr prices. Such a step will help keep you in business!

CASH FLOW CHECKLIST

1. Analysis

- [ ] Create a cash flow chart.
- [ ] Include all cash income.
- [ ] Include all cash outgoings.
- [ ] Set up weekly/monthly forecasts.

2. Strategy

- [ ] Highlight good and bad months.
- [ ] Write down suggestions to improve cash flow.
- [ ] Bring outgoings in line with income.

3.Communication

- [ ] Send out invoices immediately.
- [ ] Allocate day for sending monthly statements.
- [ ] Always give 'due date' on statements.

4. Dealing with poor payers

- [ ] Keep a close eye on poor payers.
- [ ] Consider renegotiating credit terms.
- [ ] Offer incentives to good payers.
- [ ] Get tough - send that letter!

5. Renegotiating contracts

- [ ] Come to new payment terms with clients.
- [ ] Have payments made into bank account.
- [ ] Understand what customers want.
- [ ] Try renegotiate with suppliers.

6. Inventory

- [ ] Maintain optimum stock levels
- [ ] Reduce or get rid of unnecessary purchases.
- [ ] Do not compromise on quality.
- [ ] Don't buy large, unnecessary items.

7. Managing my debts

- [ ] Avoid overdrafts and credit cards.
- [ ] Use online banking.
- [ ] Keep on top of my bank statements.
- [ ] Pay bills on time.
- [ ] If needed, consolidate debts.

And finally…

By implementing these steps, you will notice a huge difference in how your business operates. Indeed, they will help your business continue on the road of success!

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