ACTIVE PRACTICE UPDATES

lowson ward
SPECIALIST ACCOUNTING SERVICES

Improving cashflow

Nobody ever plans a cashflow crisis, yet they occur with alarming frequency - usually due to a failure to plan ahead or to make adequate provision for the unexpected.

One day your business could be running smoothly, with new orders coming in and output growing. But the next day it could be floundering, in imminent danger of failure because there is not enough cash on hand to pay your suppliers, the payroll or the taxman.

Profit is not the same as cashflow. You might have a healthy profit forecast for the coming months and be showing strong growth but, if the day comes when bills fall due and you don't have the cash on hand to pay them, your business may not survive to see those profits realised.

Depending on the circumstances, you may have only a short time to come up with the cash before creditors begin proceedings, suppliers withdraw, or investors panic. The very survival of the business can be threatened.

This may seem alarmist but the fact is that almost ninety per cent of small business failures are the result of poor cash management.

Any business, whatever its size, can go bust if it can't pay its bills or honour its debts.

Planning ahead

The key to avoiding a cashflow crisis is to plan ahead by drawing up a realistic cashflow forecast. Whereas a profit forecast will give a projection of how much profit the business can expect to make in the next 12 months, a cashflow forecast will project the incomings and outgoings of cash and show where to expect the peaks and troughs. This will help you to predict any vulnerabilities and plan for times when you might not have enough cash on hand to cover your outgoings.

When drawing up a cashflow plan it is important to factor in unexpected events. Although your cashflow forecast might look good on paper, what would happen if a major customer defaulted on a payment or a supplier unexpectedly introduced a substantial price hike? Would you still have sufficient cash on hand to meet your obligations?

A good cashflow plan will take account of such possibilities and include appropriate contingency plans.

Improving your cashflow

We have a great deal of experience in helping our clients draw up and implement both profit and cashflow plans. Besides preparing projections based on existing plans and performance, we can also help you look at ways to improve your prospects by addressing questions such as:

- How can you improve your margins in the next 12 months?
- How can you increase your top line?
- Can you sell more to existing customers?
- Can you use your marketing spend more effectively to deliver better results?
- Can you reduce your direct costs by, for example, negotiating better discounts or perhaps changing suppliers?
- Can you reduce your overheads?

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Improving cashflow

Once you have profit and cashflow plans in place, it is essential to refer to them on a regular basis to make sure your finances stay on track. As you drive your business forward, you can think of your profit plan as your satnav and your cashflow plan as your headlights.

Cash management strategies

We can help and advise at all stages of business development. Here are some examples of where cash management is of critical importance:

Starting a business

When starting a new venture it is essential to make a realistic assessment of how much capital you will need. What initial requirements do you have for funding? How will you provide for your working capital, capital expenditure and personal income?

Expanding a business

You might be seeking to diversify or to enter new markets and have identified new opportunities. What additional capital expenditure will be needed? What will your stocking-up costs be? What additional working capital will be required? What will your marketing costs be?

Buying a business

If you are planning to buy an existing business, how will you fund the purchase? If you are merging with an existing business, are there any cost savings you can identify? What about cross-selling opportunities?

Exiting a business

If you are looking to sell your business, have you built an enterprise that generates cash so that a purchaser can be expected to pay you at the higher end of the value scale knowing that the business is healthy and profit-generating and not overly cash-hungry?

These are just a few examples of where you can benefit from our experience and advice at different stages in the development of your business.

Money up front

Most businesses that trade via the Internet receive payment up front, which is obviously a great help from a cashflow point of view because it removes the risk of late payment or default. It might be said that the Internet has pioneered a new business model in this respect, which some companies are starting to implement with their offline trade.

Even if it is not possible to require full payment in advance, you might consider asking for part payment. And with extended orders or prolonged projects, it makes sense to have a staged payment plan agreed in advance.

Allow regularity and predictability

Wherever possible you should try to 'iron out the bumps' in the road so that your business progresses smoothly with as much predictability and regularity as circumstances will allow. For example you might consider:

- Negotiating a regular payment plan with your main suppliers
- Encouraging certain customers or clients to pay in regular instalments according to an agreed schedule
- Asking intermittent clients to move to a regular retainer basis
- Leasing rather than buying certain assets
- Streamlining your stock to avoid tying up cash in excessive stock or suddenly having to use your cash to make unplanned purchases.

Make it easy for customers to pay

One way to improve your cashflow is to make it easy for the customer or client to pay you more quickly. Many businesses already use credit card machines to take payments but an increasing number of small businesses are now able to take online payments with services provided by companies such as PayPal, Intuit Pay and Payleven.

These services cost about £100 including VAT and companies charge around 2.5 per cent of the cost of the transaction. The cash is usually received five to 10 days after the completion of the transaction. It might be worth exploring these options, not only to strengthen your cashflow but also to keep up with the services that your clients and customers are using with increasing frequency.

Cashflow basics

These simple strategies are fundamental to any cash management plan and will help to maximise your cash on hand:

- Raise invoices at the earliest opportunity
- Make credit terms clear on both orders and invoices
- Enforce late payment penalties consistently
- Consider offering early payment incentives
- Pay your own bills on the deadline, not before.

We're here to help

A commitment to helping our clients protect and grow their business is at the very heart of our firm's ethos. We would be delighted to help you review your cashflow situation and devise more effective cash management strategies. Call us to arrange a meeting.