How To Make Your Finances Work

Managing Cash Flow

Rule 1- Flexibility with processes: Here are a few internal strategies to consider if you feel begin to feel the strain on your finances:

1. Bill early: Send a bill as soon as you have rendered a service or sold your goods. If you have longer term contracts arrange for stage billing or, even better, upfront payments. If possible arrange for annual or quarterly billing in advance (standard procedure in businesses such as software support, or property / goods rental).
2. Follow up quickly: You need to develop a comprehensive credit control process to ensure bills are paid within agreed credit terms. Make a phone call within 1 week of raising the invoice to check they have received it. Call within two weeks of an unpaid bill to ask when it will be paid and remind customers of your payment terms and conditions. Write a letter within 14 days of terms if still unpaid. Escalate the seriousness of letters through to legal action if required after 30 days and before 60 days overdue including putting goods and services on stop. In this case always keep notes of conversations held and promises made and try to avoid going to court if possible. Also bear in mind you can claim statutory interest at 8% over base plus costs for overdue amounts.
3. Make it easy for customers to pay: ensure there are no invoicing errors on your invoices and that payment instructions including your bank account are clearly marked on the face of the invoice. If an invoice is disputed suggest agreement to payment on account of the undisputed part and then quickly work to resolve the balance.
4. Avoid 'no pay' or 'slow' customers: Be upfront with your customers about how long your credit policy and terms are, and understand their internal payment and authorisation procedures. Avoid doing business with poor or long paying customers and if need be, stop any ongoing projects and services. Clients delay payments as long as they can to manage their own cash flow but will usually pay up when you have a strict policy. Trade only with customers with a good credit record.
5. Initiate a regular payment system: Encourage your clients to pay using a direct debit or standing order if you offer regular services. For those that are not regular encourage customers to pay electronically by online banking or BACS – this ensures you can use the funds more quickly, minimises the payment cycle and chance of a payment being 'lost in the post' and is cheaper in bank charges for you and your customer
6. Discounting and Bartering: Offer incentives for prompt payment to both customers. Consider discount payments for customers who make upfront payments and charges for late-payers. Ensure you have assessed the cost and benefit of this approach and only give the discount if your customer keeps to their part of the bargain. You can also consider bartering as a viable option to accelerate cash flow.
7. Focus on getting this right the first time within your organisation and you can avoid fees and charges that will eat into your profits. Maintain a good financial management discipline by keeping accurate records, tracking key performance indicators and employing appropriately qualified and skilled financial staff. Get a specialist if necessary, many interim managers or financial management specialists are perfect at turning around companies in difficulty by making just a few important changes!

Rule 2- Revenue & Cost Projections: Due to changes in economic activity or buying behaviour, you may not be experiencing the revenues you had projected, and to compensate for the difference, you may need to consider making adjustments to your pricing/ marketing mix. This may include:

1. Reducing your unit price (Are pricing wars an impending threat to your projected profits?). Do you know what your unit costs are?
2. Aiming to reduce fixed costs (by renegotiating office rent for example, or keeping a tighter control on telephone bills or other similar costs).
3. Aiming to reduce or flex variable costs (the price you pay for manufacturing a product or delivering a service may improve if you outsource or change providers/suppliers).

4. Increasing the selling price of your products/ service. You can charge a premium if you provide exclusive products or services. Your sales may not have dropped due to high prices.
5. Introducing new products, services or projects, or changing the sales mix of existing products and services so more higher margin sales are made.

The order in which you undertake these actions can be important. Many companies go immediately for cost reduction BUT sales strategies may be better. Could you speak to someone with more experience in this field? There are many avenues to save costs including rates reduction, converting overdrafts to loans and spreading payments, as well as finding out which goods or services are making you money, or causing a loss. Which products or services need to be phased out? Or sold less of, or just monitored closely? Which projects can be reinvented and which must be stopped immediately?

Rule 3- Cashflow Monitoring & Forecasting: Are you doing as much monitoring and controlling as you should? If your business cycle is seasonal or constantly in peaks and troughs, take steps to reduce the impact of any negative cash flow periods.

1. Get up-to-date bank data using on-line banking, if possible. Reconcile bank accounts to accounting records.
2. Ensure you have access to reliable, up to date accounting data. If you are unable to do this yourself or are unhappy with the quality of information you have, get someone to provide this from outside your company.
3. KPIs: Establish and track variances from Key Performance Indicators (KPIs) for an early indication of problems e.g. debtor age, debtors over limit.
4. Produce a simple daily information sheet to enable daily monitoring.
5. Make sure budget holders keep within budget
6. Train staff on cash management practices, and cost discipline when costs exceed revenue.
7. A key indicator which all companies should be watching is ‘burn rate’, and how long before the cash runs out.
8. Produce a rolling 3 - 6 month ‘estimate’ of the amount of cash you require. Understand actual results vs. forecasts.
9. An accurate forecast can give you an indication of your borrowing requirements or excess cash available for investment, development or other liabilities

Rule 4: Treasury Management: Being cash strapped is the last thing any business should encounter as that is a sure indicator that something bad may happen- or is already happening- unless you react really quickly. Do you have access to funds or easily convertible assets if an unpredictable need for cash arises? Are you investing your funds wisely or leaving huge amounts of idle cash sitting in a bank account. Do you need to speak to someone about what you can do with significant amounts of cash? Do you know how to deal effectively with foreign denominated transactions? Having access to emergency funds or options for generating this is of vital importance. If you don’t have any, start to address this issue as soon as possible.

Rule 5- Continuous Improvement: Review and improve your model constantly. Ensure staff are trained and kept up-to-date with changes.

If you need help with the preparation of business plans or strategic advice, contact us for more information. If you are a pre or post funded company or an investor interested in carrying out a financial health check or due diligence, contact our financial management team by responding to this article, emailing clientcare@efm.uk.com or calling 0845 129 990/ 01582 516300 or simply visit www.efm-network.com for more information.