Keeping Your Business Healthy - *Manage the cashflow*

The theory to managing cashflow is simple; make sure you always have more cash flowing in to your business than flowing out.

The forecast for the week ahead

That's the theory; in reality it's a lot more difficult to juggle the ins and outs when the ins often lag behind the outs. As with most things in business though, having a plan in place that highlights the likely peaks and troughs throughout a period should at least give you a head start when it comes to spotting potential problems.

A good cashflow forecast should clearly show the amounts and times when you expect cash to come in and go out of your business. It should also show any excess of receipts over payments (or vice versa) along with a period start and end bank position. It goes without saying that it should also be constantly updated with any changes in expectations.

So, what is cash?

Although it might seem glaringly obvious to some people, knowing what is meant by the word "cash" in relation to a business is crucial and it does no harm to be constantly reminded. If you can't get your hands on it quickly then it's not cash that's available to pay what you owe there and then. Cash is money in your bank account, in your petty cash tin, on very short term deposit and if you're lucky, any unused overdraft facility. What it isn't is money that is owed to your business or the value of that state of the art machinery sitting on your shop floor.

Timing then is the essence of good cashflow management. For instance, it makes no sense to offer your customers extended credit terms if you have to pay your suppliers very quickly. Merely raising an invoice does not generate cash and unless you have a factoring or invoice discounting facility in place it won't generate cash until your customer actually pays. Although it's easier to say than do, good cashflow management would see these two aspects reversed. Getting customers to pay more quickly, perhaps with the incentive of a discount, along with securing longer credit from suppliers with the sweetener of decent regular orders, would get the ins and outs working in your favour.

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Where is it hiding?

We've seen that a significant amount of cash can be tied up in the sales ledger and how it can be released through an invoice finance facility. Regardless of whether this route is taken it is vital that a thorough credit control job is carried out to ensure that invoices are paid as close to due date as possible. A good credit policy should also make sure you're selling to people who actually have the means to pay in the first place.

A warehouse can be another black hole, especially if the stock held in there doesn't move very quickly. Remember, this stuff is even further away from turning into cash than an invoice is so having it hanging around does nobody any favours. Good stock control should identify where suitable reductions could be made or, if the business model is suitable, it might be worth considering using a just-in-time system. And don't forget the plant and machinery on the shop floor. Anything owned outright can be offered to a leasing company, giving you access to cash whilst still having use of the kit.

A constant battle

Nobody ever said cashflow management was easy but management it certainly needs. A business that runs out of cash very quickly runs out of time. However, as long as business owners keep a few vital thoughts in mind, the risks of running out can be minimised:

- Look to reduce the time gap between paying and getting paid.
- Don't confuse cash with what might eventually turn into cash.
- Recognise where cash might be tied up and get it released.
- Forecast as realistically and accurately as possible and do it regularly.

And finally, always remember that cash is the lifeblood of any business, and when it runs out there is no automatic transfusion service to turn to.

For reliable, positive and impartial advice about your business challenges, contact Mike Grieshaber.

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