

How to improve your cash position

It can be easy to focus all of your energy on making your business profitable. While making profit is important, even more important is ensuring your business has a positive cashflow. Many profitable or asset-rich business can fail simply because they run out of cash. Below we explain the importance of cash for your business and how you can improve it.

The difference between cashflow and profit

Cashflow

- ✦ Cashflow is the lifeblood of your business.
- ✦ Cashflow is the amount of cash you have available to pay your bills.
- ✦ Cashflow can come straight from retained profits, your overdraft, or some other loan facility.
- ✦ Cashflow is not just about the amounts of money moving in and out of your bank account but is also dependent on the timing of these movements.
- ✦ The bottom line is that if you can't pay your creditors they may refuse to continue to supply you with goods and services that you need to fulfil your contracts with customers.

Profit

This is the net difference between the total amount your business earns and all of its costs; cashflow on the other hand is your ability to pay your bills on a regular basis.

The need to prepare a cashflow statement

Predicting and planning for the high and low cash periods in your business helps ensure the success of your business over the long term.

Managing cash is much easier if you can predict in advance what your cash situation will

be and take steps to reduce the impact of any period when you may be short of cash.

To do this you should produce a cashflow forecast.

This will give you a month-by-month prediction of the amount of cash you are likely to require and when you will need it.

It will also give you an idea of whether you may need to arrange finance or borrowing and the terms you would need. For example seasonal business may need finance to carry them through the off season.

Ways to improve your cashflow

• Invoice immediately

Rather than waiting until the end of the month to invoice, bill immediately or on a regular basis. When taking on long-term work, discuss with your client that you would like to get paid progressively rather than at the end of the job.

• Insist on payment immediately

An easy way to avoid having to wait for payment is to insist on payment on completion of the job. Take your invoice book with you when working and write out the invoice right then and there. Ask your client for a cheque while your there. Note: Make sure you let your customers know this is how you expect to get paid. This does two things – it will weed out the customers who may have had trouble paying in the first place – saving you hassles. Also, it lets your customers make sure they are prepared for your request for payment.

• Give a discount for prompt payment

A small discount can help improve customers pay. Two warnings: first, some customers will take the discount even if they don't pay on time. You may need to be selective on who you offer discounts to or have a firm policy on discounts and their expiry.

Secondly, if your discount is too high, you may be giving away your profit.

• Let them pay by instalment

Customers may feel they are unable to pay your bill because it is large. Your bill may go to the bottom of the pile. They may be more likely to pay other smaller bills.

If you feel a customer may be a slow payer, let them pay with a series of predated cheques. [Note: Get all the cheques for the full amount at once. Also, don't extend any more credit until the bill has been paid in full.]

• Do credit checks

Some people have a history of not paying. You can avoid getting these clients by checking out their credit worthiness. Ask for references and call other businesses that have dealt with them to see whether they deserve credit.

• Use barter instead of cash

You could reduce the strain on your immediate cash if you need goods or services from someone and can barter goods or services of your own in return.

• Consider consolidating your loans

If you have several business loans or related loans such as cars, equipment, credits cards etc, you may be able to consolidate two or more of these into one lower interest account and improve your cashflow. It may also be worth taking out a longer-term loan agreement in exchange for lower monthly payments.

- ✦ Sell for cash or credit card rather than on terms if your industry practices permit.
- ✦ Add late payment charges, fees, or interest when possible.

- ✦ Pay bills only on their due date (or later if possible) unless there is a discount for early payment. It may be that you are paying your bills sooner than you are getting paid which is causing the problems.
- ✦ Spread payments to your suppliers out over the month.
- ✦ Reduce stock on hand to only the most necessary items.
- ✦ Have a sale to move slow-moving items at cost.
- ✦ Lease instead of purchase equipment.
- ✦ Pay no more estimated taxes than necessary.
- ✦ Deposit cheques and cash daily.
- ✦ Use tax losses or credits.
- ✦ Increase sales.
- ✦ Increase prices.
- ✦ If you have traditionally sold to the trade – look at selling to the general public. They will expect to pay for goods and services immediately.

How to get started

- ✦ Talk to us, if you feel you need help improving your cashflow. We can help.
- ✦ We can analyse your cashflow and identify what the causes could be.
- ✦ We can also prepare a professional cashflow forecast that will assist if you need to arrange additional finance through your bank.

See Us First

- ✦ If you consider that any of the issues contained in this fact sheet may affect you.

Disclaimer

Important: This is not advice. Clients should not act solely on the basis of the material contained in this fact sheet. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. We believe the contents to be true and accurate as at the date of writing but can give no assurances or warranty regarding the accuracy, currency or applicability of any of the contents. This fact sheet is made available to our clients as a helpful guide for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.