

Improve your cash flow

The key to successful management of your cash flow is the constant monitoring of money flowing in and out of the business. The business owner needs to stay on top of this requirement and must constantly intervene if the business needs to chase up cash owing to it or clear stock quickly in order to raise cash.

Remember that profit is not the same as cash. There are many businesses that are operating successfully and yet they still go into liquidation. Many businesses go into bankruptcy on the same day that they announce record profits. It is not lack of profitability that has caused their downfall - it is the lack of cash.

10 ways to increase your cash flow

1. Get cash first and give credit last - don't extend credit to anyone unless necessary. A cash business is ideal, even if you have to give a discount to get that money into the till.
2. Chase your money - if you do extend credit, once the bill is overdue, start chasing. If your terms are 30 days net, then as soon as it is 7 days over the 30 days, make a call and ask for your money. Don't stop calling. It is the baby that cries the loudest and keeps crying that gets fed first.
3. Follow the routine of a courtesy call and then a demand in writing. If payment is still not made, consider the services of debt collectors if debtors do not respond to your reminders. The fact that going into the debt collectors could affect their credit rating usually moves debtors to pay to maintain their good business name. It is better to lose the business of a bad debtor than to continually have hassles of being paid for your sales.
4. Get your bills out quick - make sure that this side of the business is efficient. If you have made sales and they need to be charged or invoiced out, then this area of the business is obviously very important. Those invoices should not be delayed and they certainly can't be left until the following month. These are minor matters, but it is the small things in the business that can cause the biggest problems. The moral of the story? - Get your invoices out so that your creditors can pay them by the due date.
5. Stretch out your time to pay - at the same time that you are chasing money owing to you, see if it is possible to get extended credit on money you owe creditors. Instead of getting 30-day terms, see if that can be extended to 60 or 90 days. Remember, this is interest free money and having the extra time gives you the ability to collect all your money before you have to pay your bills.
6. Check your prices - make sure that you are charging correctly. If necessary, re-cost so that there is a proper margin put on to the costs of a particular product. It is amazing the number of businesses who record ever increasing sales figures and yet their cash situation is critical from month to month. Maybe there is not enough profit built into the products and the sales are only covering the costs of getting the product out.



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7. Minimise your stockholding - the more stock you have sitting around, the more cash is being lost because that stock could have been converted into cash and be sitting in the bank. You will need a certain level of stock to satisfy customers and to also ensure that you generate good sales. However, only hold sufficient stock to keep the business and the customers happy. All other stock, (especially slow moving) should be discounted if necessary and turned into cash as soon as possible.
8. Try leasing assets instead of buying them - instead of paying cash for vehicles or equipment, look at leasing them. Even though leasing may cost you a little bit in interest, it will improve your cash flow and hopefully you can put that cash to better use.
9. Reduce your costs - look at all your expenses and see if there are areas where they can be reduced. For example, look at insurance, mobile phone costs, stationery, contractors etc.
10. Offer discounts - where you require prompt payment, offer customers a small discount if payment is made within 7 days. This offer should be strictly controlled so that those who still pay late do not receive the discount.

Further information

The following fact sheets provide further information on these issues:

- Business growth tips
- Cash flows
- Control your costs