

Cash Flow Management – The Lifblood of a Business?

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The short answer is – yes!

In a recent survey, nine out of ten respondents reported cash flow issues impacted on revenue¹ and one in five SMEs said they were unable to take on new work because of cash flow restrictions².

A solid cash flow allows your business to service debt, fund growth, and enjoy financial flexibility. The key to managing cash flow for any company, is to promptly follow up the funds coming in, while delaying expenses where reasonable.

Unfortunately, a large number of businesses especially start-ups, fail in Australia as owners fail to understand, or underestimate, the cash flow required to start and even stay in the business long-term.

Business owners may also find it very easy to confuse cash flow with profits. The total revenue may not necessarily mean all the cash has been collected. For example, if you make a sale of \$100,000 but the customer has not paid this debt as yet, we would still need to record it as income in most cases.

That is why businesses need to understand, manage and plan their cash flow. By forecasting and planning, businesses give themselves an excellent chance of being financially sound and staying on top of its ongoing commitments.

Below are a few key tips which will help your company go from good to great:

Clear Financial Targets

- Do your budgets and forecasts in order to have clear financial targets and find out how much cash you need to fund the business.
- Weekly and monthly forecasts are necessary when starting the business, or you are experiencing a rapid growth, or when the business is going through financial difficulties.
- Quarterly or yearly forecasts are suitable for established stable businesses.
- It is important to be realistic and compare your findings against actual results. This will help you to make the right decisions going forward.

Managing Debtors Effectively

- Review your company policies especially when it comes to upfront and progress payments.
- Invoices must be sent out to your customers in a timely manner, preferably as soon as the work is done. The longer you wait, the longer it will take for the money to be collected.
- Review your debt collection policies. Timely reminders to your clients is a must!
- Debtor financing is also an option to assist with tight working capital requirements.
- A full range of payment options will make it easy and more convenient for your customers to pay quickly.

Do not be afraid to negotiate with Creditors

- Review how the payments are made to your suppliers and/or creditors. Set up a payment arrangement if required to give the business a much needed 'breathing space'.
- This is important if the business is going through financial difficulties.
- It is also important for owners to not fall into the trap of just cutting overheads in the process.
- You need to review and invest in efficiencies within the business.

Review of your product/service offering:

- If you do offer different products and/or services, review how you can –
 - Upsell i.e. sell something of a higher price value; or
 - Bundle packages i.e. sell several items at once.
- What makes you different to your competitor? What are you trying to achieve?
- These are important questions to answer especially if you are wanting to improve the cash flow over the medium to long term.

Engage the services of a trusted Advisor

- Finally the most important tip is to engage the services of a trusted advisor to assist you with the above.
- The Accounting industry is going through a very exciting evolution phase at the moment.
- With the continued growth of cloud accounting and related CRM software such as Xero, Accountants have become an even more integral part of their clients' business.
- At Nexia, we recognise this and use technology to have conversations and offer solutions to clients based on real time data.
- Nexia also offers a range of business simulations to its clients which has a direct impact on the cash flow and the financial performance of the business.

After all, **cash is king**.

If you would like to discuss how our range of cash flow solutions would best suit your needs, please contact a Nexia Advisor.



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^{1,2} Scottish Pacific Business Finance, SMEs in growth mode, despite financial constraints: scottish pacific SME growth index

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