

Increasing your cashflow

We are all aware of the importance of maintaining a positive cashflow from month to month if we are to avoid a liquidity crisis and all the misery that entails.

But there is a lot more to cashflow management than simply avoiding crises. Actively striving to increase your cashflow can:

- Reduce the amount of fixed capital you need at any one time
- Make it easier to plan for and fund future growth and expansion
- Give you the flexibility to move quickly in response to changes in the marketplace

A question of balance

The key to successful cashflow management is to optimise the amount of cash available at any one time. This means increasing your cashflow as much as you can without jeopardising other strategies. Invariably, this involves striking a balance:

Balancing credit

The first and most important step in cashflow management is to establish a mechanism for tracking and controlling credit. The faster you receive payment from your customers or clients, the more cash you will have at your disposal; therefore it is important to bill early and pursue late payers vigorously.

However, it is equally important to avoid imposing so tight a credit regime that you drive away actual or potential business. Moreover, extending credit beyond your normal terms can sometimes help to win new contracts or persuade existing customers or clients to increase their orders.

You need, therefore, to make a judgement on a case-by-case basis as to whether the benefits of the extra business outweigh the disadvantages of slower payment.

Balancing payments

As a general rule, you should make the most of available payment periods. These are in effect lines of interest-free credit. Ensure that your accounts department is aware of the agreed payment periods for each supplier and does not pay invoices earlier than is necessary.

At the same time, you should consider taking advantage of incentives to settle invoices early. For example, if a supplier offers a 2% discount for bills settled within two weeks, this is the equivalent of a 24% annual return on your money - which is considerably more than you would have achieved from investing it. If suppliers do not offer such schemes, you might suggest they introduce one, especially if you are a long-standing customer

Balancing prices

While it is important to keep your prices competitive, you also need to make sure raise prices on a regular basis to cover any increases in your costs; otherwise your cashflow will suffer. Remember, customers tend to expect an annual increase provided it is within an acceptable range.

Balancing purchases

The prospect of achieving savings by buying in bulk can be tempting, and might be the right course of action in some cases, but bulk purchases tie up cash. They can also lead to waste if market conditions suddenly change, or if you change operating or production procedures before all the stock is used up. It might be better to buy a little often in some cases.

Also, avoid the temptation to buy everything from one supplier simply for the sake of convenience. Where reliability and service are important factors, such as with office equipment, it generally pays to stick to a supplier you know and trust, but in other cases, say with run-of-the-mill office supplies, it pays to shop around and take advantage of special deals, promotions, etc.

Balancing clients and customers

Whereas the most profitable way to bill clients is probably on a job, or even an hourly, basis, arranging for some clients to pay a monthly retainer would assure a more predictable cashflow.

Where possible, tie customers and clients into automatic renewal arrangements so that when a service period or product expires the default is that it is renewed. These arrangements also help to maintain steady, predictable cashflow.

Balancing stock

While you need to carry enough stock to be able to fulfil orders and anticipate any surges in demand caused by marketing campaigns etc., bear in mind that stock ties up cash and can be very expensive. Check stock regularly and dispose of any that is obsolete or slow moving.

Call the experts

This is an area in which we have a great deal of experience. Why not contact us to arrange a meeting and discover how much we can help you improve your cashflow.

