

Tips on managing your cash flow

Jo Eccles, business advisor at the Forum of Private Business, provides some useful pointers on keeping control of your the movement of money into or out of your business

You've heard the old adage that when it comes to business 'cash is king'. Cash flow is the lifeblood for ensuring the smooth day-to-day running of any business, small businesses in particular.

While many firms have sought to build up cash reserves in the recent downturn, many simply don't have the reserves to allow them the luxury of waiting for payments on what they are owed without it having a severe impact on their bottom line.

According to the most recent statistics small firms in the UK are collectively owed in the region of £30.2billion, and the average UK small business has to wait a staggering 38 days beyond the payment terms for their invoices to be paid. The government is all too aware of the cash flow difficulties the existing culture of late payment is having on the small business community and is imminently expected to announce measures it is looking to implement to help to tackle the issue.

However, the following tips outline the key steps small business owners can employ to tackle cash flow worries head on.

1

Know your customers

No one likes to think the worst but it's important to consider the impact on your business if one of your customers went bust. Using a business monitoring and credit reporting service will allow you to keep an eye on your customers'

financial situations and spot warning signs when it comes to their finances which can be reviewed before you consider extending credit. You can also obtain credit insurance to protect your business from the possibility of customers becoming insolvent.

2

Implement effective credit control procedures

It's a good idea to establish as a credit control system. It should be:

- realistic and easy to manage
- agreed with the staff responsible for credit control
- be communicated to everyone it will affect.

It sends out a clear message to your customers that you are on the ball when it comes to managing your company's finances if you have robust procedures in place. Firms who have these in place are also less likely to suffer from late payment and or bad debt.

3

Know your customers

If you are wanting your customers to pay promptly it really is a question of 'practice what you preach'.

Not paying on time will not only potentially damage your business reputation, but also

put a strain on relations with your suppliers. It can also be taken as an indication that all is not well with your business, and your suppliers may respond by allowing you less credit.

4

Set clear payment terms

Establish and adhere to a clear policy and terms when it comes to payment of bills, and make sure that you agree these with your customers at the order stage. Also make sure that you include terms on your website, catalogues and price lists, and clarify these when responding to enquiries. Don't forget that allowing clients time to pay will incur costs that you many have to absorb.

No one likes to feel they are being heavy handed but having a firm and clear stance on payment will ensure fewer problems down the line when it comes to cash flow and late payment.

The Forum of Private Business offers advice and support on tackling late payment and other business issues. For further information visit www.fpb.org.

Alternatively for further cashflow advice, please contact your accountant.