

Tips to tackle cashflow concerns

In these uncertain times it is vitally important for all businesses to plan ahead for a range of scenarios and there are practical steps that can be followed to tackle cashflow concerns. A lack of appreciation for the importance of the company's cash cycle can be especially evident in young, inexperienced businesses. The length of time this cycle may take and the working capital required to cover the cashflow in the interim is often undermanaged and underestimated.

Equal importance must be given to each aspect of the cycle; from making the initial investment or raw material purchase, finding the customers, investing in the labour to progress and finish the work, and finally committing the resources to invoice and collect the debt. If more time is spent chasing new business than completing current work and getting paid or vice versa then unfortunately the cash cycle can break down. Often the business owner is too close to the business or just too busy to see that the solution may be very straight forward, such as invoicing on a weekly basis.

This example leads on to one of the main issues affecting cashflow - late payments. These can be a major headache for small businesses, with very few being able to wait months for payment. This makes it vital to chase up unpaid invoices as soon as possible to

see where the problem lies. Also, ensure that credit terms are in sync with suppliers. For example if a business gives its customers 30 days to settle an invoice but its suppliers have to be paid within 14 days a negative cash flow can build up.



Other simple strategies to protect cashflow include producing a cashflow forecast to keep track of expenditure month by month. Once this has been done for a year comparisons can be made to help planning. It will highlight peaks and troughs in the level of business and expenditure throughout the year.

Anticipation can also help a great deal. By monitoring customers, suppliers and market conditions it may be possible to pre-empt a problem before it occurs.

If you need any further information or help regarding this issue we recommend that you seek professional advice from your accountant or business advisor.