Turbo charge your business cash flow - ways to improve cash flow management

A cash flow crunch can hit even the most profitable business, but good planning can ensure small and medium-sized businesses have access to cash when they need it most, according to local National Australia Bank (NAB).

Concerns about cash flow issues was the second biggest issue that kept business owners and managers awake at night, according to a recent survey.

More than 29% of the business owners and managers surveyed said concerns about their staff kept them awake at night, while 27% were worried about their cash-flow. (The survey of 175 businesses was undertaken by NAB in April-May 2005 to better understand the needs of its customers and these tips are provided in response to that.)

Failing to plan cash flow requirements and understand your business operating cycle can affect sound businesses, says George Frazis, Executive General Manager of Business and Premium Banking at NAB.

“A cash flow crisis can occur in the best business. Profit doesn’t automatically equal cash and you don’t need bad debts for it to happen. Fortunately, there are steps business owners can take to navigate the cash flow peaks and troughs,” Mr Frazis said today.

The time elapsing between the purchase of goods, offering those goods for sale, making the sale and collecting payment from customers is known as your business operating cycle.

The length of your business operating cycle determines how much cash a business must have on hand. The shorter the cash flow cycle, the fewer cash reserves needed.

Mr Frazis says consulting your accountant or financial adviser to design specific strategies for managing cash flow is vital. Some of the options they may provide are:

1. Turbo Boost Your Operating Cycle
Increasing the efficiency of your operating cycle is a good place to start, and you can achieve this by:
- Reducing excess stock,
- Reducing costs,
- Obtaining stock on consignment, so you don’t pay until it’s sold; or
- Reducing manufacturing times, so stock turnover is quicker.

2. Review Your Payment & Trading Terms
Offering credit can increase sales but it can also tie up your money. Examining how long it takes to collect payments will determine if you need to act. Encouraging progress payments can improve cash flow, as can credit card facilities, as you don’t have to chase the debt. Some businesses also offer discounts for early payment, but Mr Frazis recommends seeking professional advice on this as extra charges may cause customer backlash, or affect profits. Extending trading terms or seeking credit from suppliers are also options.

3. Increase Your Profits
By reviewing and possibly modifying your current price structures and costs, you may be able to free up money to improve your cash flow, without having to sell more products. Alternatively, increasing sales should also positively influence cash flow, provided you have addressed any operating cycle difficulties.

4. Reduce Your Sales
While this appears to conflict with the above point, the time lag between supplier payment and customer payment can burden your cash flow. “Reducing sales volumes may seem radical, and while not a strategy appropriate for many businesses, it can be the ideal launching pad for growing your sales in future,” he said.

5. Get Your Finance Right
Mr Frazis says the most important factor in financing is planning and obtaining finance tailored to your business. Short-term finance, such as an overdraft, can help manage seasonal issues, but longer-term finance should not be used to attack short-term cash flow problems. Another option is debtor finance, where lenders provide cash advances against outstanding invoices. “Organising finance in the middle of a crisis may lead you to accept less

than ideal terms, so make sure you investigate the options most suitable for your business ahead of time."

6. Most Important of All – Create a Forecast
A cash flow forecast will set out which months might be cash flow positive or cash flow negative. Mr Frazis says the following summarises the necessary elements:

Estimate total cash receipts for the year. Factor in operational income such as sales, and non-operational income, such as loans or capital injection. If you operate on credit, factor in the percentage of sales made on credit and average time it takes to collect from debtors.

Estimate total cash disbursements for the year, month by month. Factor in operational disbursements – sales commissions, marketing expenditure – which will be impacted by sales forecasts. Consider payment terms – if stock is received in August, but payment isn't due till September, your cash flow should factor in September payment.

Source: *http://www.national.com.au/Business_Solutions/0,,126,00.html*