

568.44

125.81

903.11

461.54

681.77

4,801.24

1,894.87

1,246.84

231.70

14,872.91

31,875.66

19,581.48

10,874.51

111,044.77



Penny wise?

A closer look at credit management, with Mike Warner FCA

There are five fundamental rules that must be followed to help you to take control of your cash flow.

1. Do not run out of cash – ever. Make a commitment to do what it takes. Never stop recognising that cash is what keeps your business alive. Manage it with care and give it the attention it deserves.
2. Always know your cash balance. What is your cash balance today? It's absolutely critical that you know exactly where you stand all the time. With the ease of online banking, this is easy. Check your account daily. Allow for cheques issued that have not yet been debited to your account.
3. Predict your cash balance six months from now. Being able to predict your cash balance six months from now will transform the way you manage your business. You must be in charge of your business, not let it manage you.
4. Cash flow problems should not come as a surprise. I am always amazed at the number of businesses that fail because the owner did not see a cash flow problem in time to take the necessary action. For instance, funds to pay periodic bills such as VAT, rent, income tax or corporation tax bills had not put been aside.
5. Cash flow projections are an imperative. Cash flow projections are the key to making good business decisions.

Planning for success – what you need to do

There are a number of steps that can be taken to ensure that cash flow is controlled and does not turn into a crisis. Follow this checklist and your chances of being in, and staying in, control will be increased.

Sales

1. Set clear terms of trade and enforce them
2. Reduce the number of days credit given
3. Increase prices (particularly to slow payers)
4. Bill as soon as work is completed
5. Require payments on account
6. Educate customers by applying consistent credit practices
7. Understand customers' payment processes – authorisation of invoices and when payments are run
8. Pursue settlement immediately invoices are due
9. Charge for late payment
10. Bank cheques immediately
11. Stop supplying bad payers
12. Offer settlement discounts, if appropriate.

Costs

1. Seek better terms with suppliers
2. Make prompt payment only when worthwhile discounts are offered
3. Exercise tight control over stock. Use suppliers who can deliver "just in time". Reduce stock levels, whenever possible
4. Negotiate bulk and settlement discounts
5. When insurance, maintenance and service contracts come up for renewal aim to renegotiate reduced renewal charges. Aim for at least 15%
6. Avoid luxuries in the difficult times. Cut out entertaining. Keep spending down to essentials
7. Continually review costs and eliminate wastage

"You must be in charge of your business, not let it manage you."

Financial Management

1. Set cash aside for VAT and taxes
2. Do not pay yourself excessive salaries or dividends
3. Retain profits and build the reserves for those "rainy days"
4. Maintain strong internal controls and strict ordering procedures
5. Communicate with your bank manager,

keep him in the picture and give advance warning of any imminent difficulties. The likelihood of support is significantly increased

6. Consider the benefits of factoring or invoice discounting
7. Arrange financing well before the need arises
8. Prepare an annual budget, incorporating profit and loss statement, cash flow and balance sheet (using program such as Sage Forecasting)
9. ...and above all, maintain a rolling six-month forecast.

Planning ahead will help you to anticipate your financing requirements and have suitable funding. Effective administration and procedures are vital to keep your business alive and well during the difficult times, so that you are able to take advantage of opportunities when times get better.

Cash is King, long live the King!

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Get involved
with us**

Call today to find out how easy it can be 0845 67 88 67