

## **Manage Your Business Cash Flow**

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For many small medium sized businesses, cash flow has received and will continue to receive the highest possible attention.

Why?

Simply the cash flow is the lifeblood of the business, and without a sustained positive cash flow the business may stagnate and eventually fail.

Business owners will recognize the import of a positive cash balance in their business. Decisions on new investment in areas of business development marketing, staff, plant, machinery, systems and so on are much easier to take. The investment appraisal is done, an acceptable return on investment is forecast and if cash is readily available to the business, the investment can go ahead.

However, a major problem for most business is the management of the cash.

The key aspects to control in the cash management process are the cash receivable from customers (debtors or receivables) for credit sales transacted and cash payable to suppliers (creditors or payables) for purchases made.

In many instances the sales cash receivable and the purchase cash payable account for the most significant numbers in the cash flows of businesses.

This fact will be recognized by many business owners, however, taking action to ensure appropriate systems and procedures are in place to adequately manage these two important cash movements may be found wanting.

For many small businesses, credit management may be a part-time activity or may not formally exist at all. The opportunist debtor, upon realizing that the supplier does not have a credit control system or one that is stringently enforced will seize the chance to delay settlement of his/her debt payments. This is a common practice and in many respects condoned by the selling business, because generally this action by the debtor becomes 'custom and practice' and both parties accept payments will always be late.

Why do business owners accept such an environment?

The need to have cash inflows will not be underestimated by the business owner, however, the timeliness of those inflows will all too often be compromised due to inadequate preparation in collecting the debt or for fear of upsetting a customer and losing a potential customer through pressuring the debtor for on-time payment.

A delay in securing payments on time will adversely impact the cash flow of the business, increase the working capital, increase costs through higher interest charges or reduce the interest receivable should the business hold positive cash balances.

The often overlooked costs of late payment will erode profits and potentially jeopardize future investment in the business.

Whilst an increase in costs is serious, the shortfall in timely cash inflow may risk the ability of the business to pay its own creditors in accordance with the agreed terms of contracts.

Should the creditors of the business also be lax in their credit management, it may be possible to conveniently delay settlement until such time that the overdue debtor cash has been received.

Unfortunately it is often found that not all creditors of the business are prepared to accept late settlements. Deliveries of new orders may be delayed until settlement is made; credit limits may be reduced or even withdrawn. In such circumstances the business owner must find funding from some other source to 'bridge' the now extended timing difference between cash payments to creditors and late cash receipts from debtors.

A one-off situation may be manageable, however, if continually repeated the threat of the business downward spiraling may become reality. As a business grows the cash sums involved will become larger and the gap to bridge will be greater.

Most business owners will state that cash is king; however, its continual recognition in the day to day management of the business is not always evident.

Another adverse impact on the business of an unmanaged cash flow environment is the increasing time spent by the business owner working 'in' the business on cash management activities –typically chasing overdue monies and pacifying creditors. Time that maybe should be devoted to working 'on' the business generating growth to secure its future.

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