

# Manage your cash flow



Increase your  
sales through  
customer feedback

The 8 best  
ways to ask  
for payments

How to stay  
on top of your  
cash flow

# What is cash flow?

As any small business owner or adviser will tell you, cash is king. It's a well-known saying but what exactly does it mean?

Put simply, businesses go bust in the long term through lack of profit, but in the short term, they fail because they don't have enough cash to pay their bills. Cash flow is the life supply of any business - more firms go under because of cash flow problems than anything else.

The principles of good cash flow management are straightforward. First, you've got to make sure you've got more money coming in than going out. Money also needs to come in on time, so you can pay suppliers and invest in new stock. Having access to cash also gives you better buying and negotiating power, which could save you money long-term. Anticipating any shortfalls in funds is important too, as this allows you to make contingency cash flow plans such as extending credit.

Managing money and cash flow are critical for small firms but if you can get the basics right, you'll be in a strong position.

Businesses check their cash flow:

53%  
weekly

85%  
daily



# Ways to stay on top of your cash flow

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## 01. Credit control

Setting up a good credit control system needn't be complicated - it's really all about getting paid as soon as possible - but it's essential to put some procedures in place. The basics include setting clear credit limits and payment terms for your customers, sending out invoices promptly and firmly chasing all debts when due. You should also stay on top of customer payments and be quick to stop offering credit to bad payers.

## 02. Sales forecasting

Put simply, sales forecasting is all about predicting what's ahead so you can prepare for cash flow peaks and troughs. As soon as you have a month's sales behind you, you can start forecasting cash flow - using your market knowledge, think about your pricing, the level of competition, the state of the economy and so on, to work out demand. Remember it's better to be overly cautious than optimistic - that way, you'll hopefully avoid nasty surprises.

## 03. Cutting unnecessary costs and spend

When it comes to preserving cash flow, think lean and mean. Scrutinise every item you buy, know exactly where your cash is going and always get value for money. Work out what you really need, too - those office pot plants might look nice but they won't grow your business.

## 04. Negotiating good terms with suppliers

It's always worth investigating to see if you can extend payment terms with suppliers. After all, if you can settle your bill in 60 days or even 90 days rather than 30, you get to hold on to your money for longer and this helps regulate cash flow in a business. If you're thinking about making a big order, don't miss the chance to negotiate - could you set up a regular payment plan for example rather than paying off outstanding amounts in one go?

## 05. Managing stock

Monitoring stock closely and only ordering what you need is essential to avoid outlaying unnecessary cash. Work out what sells quickly and profitably in order to keep income steady and make sure you're not tying up funds in slow moving items that are difficult to shift. If you're looking for a quick cash injection, try selling off old or outdated stock at a cheaper price.

## 06. Don't tie up cash

If you've got orders coming in, it's always tempting to buy the latest equipment or splash out on impressive new kit. But think wisely before splurging on excessive purchases and try to hold on to liquid cash. If you're buying assets like computers, ask if the supplier will offer a finance deal over a year or consider taking out an overdraft.

## 07. Keep on good terms with lenders

Times might be tight and it's harder to get a loan than it used to be but it still pays to keep on the right side of the bank. Always keep your books up to date so you can show your figures, just in case you need to borrow - and don't forget, if you're struggling with repayments, talk to your lender rather than burying your head in the sand about the debt.

## 08. Invoice discounting

It won't suit every business model but one way to regulate cash flow is to use invoice discounting, where a third party 'buys' your invoice and releases cash based on its value. If you're growing, it can be a good option and some lenders will give you up to 90 per cent of the invoice amount. Fees can be high however so always shop around - it's a very competitive market.

## 09. Spotting the warning signs

A drop in turnover, customers taking longer to pay, incurring late penalties from HMRC and being forced to settle supplier invoices later than usual - these are all classic signs that your cash flow is suffering. Don't ignore the warnings - it's generally easier to work out ways to increase working capital before you've built up a lot of debt.

## 10. Being realistic about your business

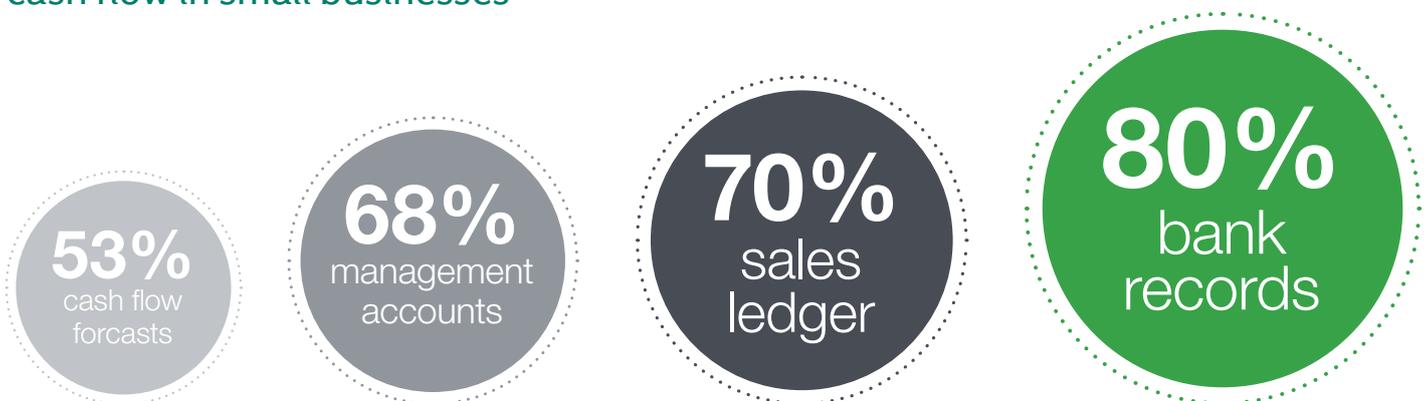
Sometimes you need to take a step back to see things clearly and running a business is no different. If you're always struggling and your cash flow statement is poor, ask yourself why. Are your sales too low? Are your products poorly priced? Can you chase payment more quickly? Be level-headed about your venture and its future - if you're not making a profit, you might need to rethink things.

# Boosting profit - an expert guide

Emma Warren is a business expert, entrepreneur and managing director at Portfolio Directors, which gives advice to growing small firms. She gives her tips on how to boost profit.

- Manage your suppliers. Don't be afraid to ask for a discount to boost your profit but don't be so ruthless that it affects your relationship. Negotiating cheaper delivery slots - away from peak hours for instance - is often a good way to bring down costs.
- Manage your cash cycle by keeping accurate sales records. That way you can keep profit margins high and spot problems early on. Raw material prices going up might mean you need to increase your prices, for example. Or you might need to run a special promotion in quieter months.
- Talk to customers and suppliers to find out the latest innovations and trends and what's 'hot'. Be super alert to new ideas and what's selling well in your sector - can you piggyback in some way?
- Make products and services repeatable wherever possible. Even if you have to discount to achieve this, it's usually worth it for the cash flow benefits. For example, if you're a training company selling to corporate clients, offer a mixture of training and coaching over a six-month period with a regular fee each month, rather than just a one-off session.
- Encourage customers to commit to a purchase every month either through an email alert or newsletter featuring your latest ranges. Better still, gear it to your customers' individual tastes and buying preferences.

## Favoured methods of assessing cash flow in small businesses



It's cheaper and easier to keep customers than it is to set out to attract new buyers.

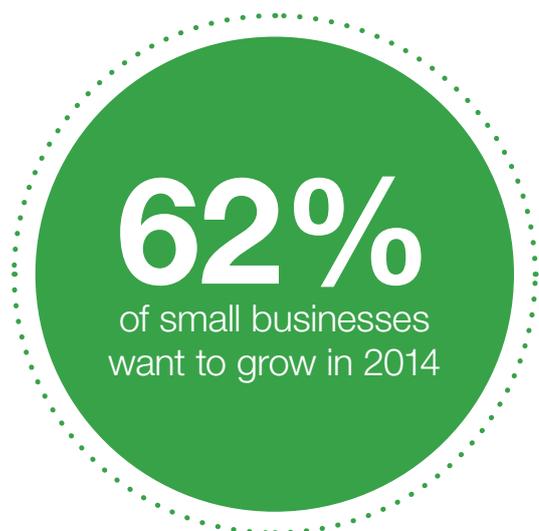
# How to make money

## Increase sales through customer feedback

It's common knowledge that your existing customers are one of the most valuable assets of your business. After all, they've already found you, chosen you over your competitors and are familiar with your products or services. It's also cheaper and easier to keep their custom than it is to set out to attract new buyers through direct sales or marketing campaigns.

Existing customers can be highly valuable when it comes to increasing sales. So how can you tap in to your client base to sell more?

- **First, gather their feedback.** People who have bought from you are often the best judge as to what sells well and why, and from there, you can work out your most effective sales strategy. By unearthing what your customers need and when, you can also predict demand. Try following up sales with a courtesy call or carry out a brief customer service questionnaire to get customer feedback.
- **Don't overlook social media sites which can be a cost-effective way to gather opinion from customers.** Sound out new products or services with your followers on Twitter or Facebook, or check out competitor activity. If your trade or business organisation has an online forum, consider starting a discussion or thread to get feedback.
- **Consider how to exploit cross-selling and up-selling opportunities to your existing clients by increasing either the range or the value of what you sell.** If you sell online, use your website and email marketing campaigns to make recommendations based on customers' buying habits.
- **Work out what your most valuable customers - the high spending ones - really want from you.** To encourage orders, you could offer discounts or special promotions on further purchases.
- **Alerting customers on your database through emails or newsletters** when new, improved or related products or services become available is another way of increasing sales.
- **You could also try to attract new customers through referrals** - usually a highly reliable way to bring in new business - by giving a special discount to buyers who recommend your business to others.
- **Remember, no customer likes to be overly-badgered with sales pitches,** particularly if the product or service doesn't meet their needs. Your marketing and sales campaigns need to be accurately targeted otherwise your customers could lose their trust in you and this could jeopardize the buying relationship. Your aim is to build a solid long-term association, not chase one-off profits.



Source: FSB Small Business Guide 2014

# The best way to ask for payment

Wondering how best to approach that late paying client? Mike Guttridge, business psychologist and member of the British Psychological Society gives his best tips on getting paid.

- **When you're chasing an unpaid bill, you've got to state clearly what you want to happen.** Make sure the client understands your point of view. Explain that you invoiced 30 days ago, the amount is now overdue and you expect to get paid by the end of the week.
- **Be nice, stay calm but don't be a walkover.** Certain clients will push you to the back of the queue if they think you'll put up with it. It's about being clear on your goal.
- **Keep reiterating the facts,** including when you invoiced them and your payment terms. And always get your facts right. If you sketch over the details - or worse, get them wrong - you'll lose credibility and it's easier for the client to ignore you.
- **Make personal contact with the person who employed you.** It's much harder to brush off somebody you've worked with or built a relationship with in the past. Ask if they can pull strings with the finance department or have a word with the boss.
- **Be persistent.** Make regular phone calls. Suggest a meeting. Get in touch - often.
- **If you have to deal with the accounts department, be personable.** Find out the person's name and try to understand their point of view. Do they only pay on certain days? Is the company struggling? Treat everyone with respect, including the most junior assistant - it pays off.
- **Always use red ink on your reminder invoices.** Red is known to command attention.
- **Get a special rubber stamp with your company name on it.** Resend your invoice with 'overdue' stamped right across the page, preferably in bright red. Be bold!

# An expert's view

# Top 5 reasons for late payment

- 01.** Suppliers changing terms and conditions
- 02.** Customers withholding funds to check quality of work
- 03.** Customers demanding payment discount not agrees at the outset
- 04.** Suppliers with drawing credit without any notice
- 05.** Customers withholding payment to question quality of work or delivery times



<sup>1</sup> Source: Sage Pay Study, 2014

<sup>2</sup> Source: Federation of Small Businesses member survey 2013-14



# Checklist: 10 ways to avoid a cash flow crisis

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- 01.** Regularly check your cash flow forecast to keep on track with finances and to avoid shortfalls.
- 02.** Send out invoices promptly and be quick to chase overdue bills
- 03.** Get to know your customer payment dates and don't ignore irregularities or delays - a poor paying customer might be about to go bust.
- 04.** Avoid laying out a lot of cash for unnecessary quantities of stock.
- 05.** Cut back on pointless spending and costs.
- 06.** Stay on good terms with your bank or other lenders in case you need to extend credit levels or apply for finance.
- 07.** Create a short-term cash boost by offering incentives for early purchases or quick payment
- 08.** Consider all funding options including hire purchase, leasing, loans and invoice discounting.
- 09.** Assess the frequency with which you pay suppliers, tax bills and so on - is it possible to pay in instalments or make terms more flexible?
- 10.** Have a warning system in place so if you are heading towards the red, you know as soon as possible.



Business expert and entrepreneur: **Emma Warren**

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