MANAGING YOUR CASHFLOW

The lifeblood of your business

This is an area of your business that cannot, under any circumstances, be neglected. It can be the difference between growth and sustainability and liquidation of the business.

From an accounting perspective, it is referred to as **working capital**, because it includes, if required, financing from time to time.

The phrase that working capital is the "lifeblood" of a business is appropriate. Having a sufficient cashflow on a day-to-day basis is as essential to a business as is having blood flow through your body: without it, there is no chance of survival.

Having cash flow through the business is one thing; managing it is quite another.

What has to be managed

Creditors(that is, your suppliers) have to be paid, but only at the time it really becomes necessary to pay them. This depends on the period of payment allowed. For example, if your arrangement is to pay the creditors within 45 days from date of delivery, ensure that payment is made at that time — not sooner because you unnecessarily take money out of your business when you do not have to and not later because you run the risk of upsetting your supplier and/or incurring interest on the outstanding amount.

Similarly, collection from **debtors** (those who owe you money) must not be neglected or allowed to get behind. If a debtor should pay within thirty days, ensure that he does. To allow debtors' payments to go much beyond their time allowed means there is less cash to work with and the danger is the debtor may never pay if you have been lax about following up on non-payment.

If providing services, you have to have sufficient human resources that have to be paid; if you are providing a commodity, you have to have **sufficient stock and human resources**. This again implies having sufficient cash to meet those needs. There must be enough stock to meet orders at any one time, but you do not want to have too much money tied up in stock that you cannot move. The longer something lies in stock, the less likely it is you are going to sell it.

Many businesses **need finance** from time to time, either through owners injecting money or through access to loans from banks. That also has to be managed carefully and done for the right reasons.

Cash flow problems can be prevented

An ideal situation is to **project your cash flow requirements** for each month for a year ahead and adjust that budget as you proceed during the year, making it as accurate as possible. This requires you to forecast anticipated income from your debtors or cash sales in the month that they are likely to occur as well as the expenses. It is even in your interests to have at least three budget projections that include a best case and worst case scenario and think about how the business can respond. By being aware, you can prepare adequately to meet the situation.

Here are some important guidelines on what you can do to manage your working capital:

- Ensure you send out invoices and statements timeously and track any slack debtors

- Pay your creditors at the time they are required to be paid — do not incur penalties or jeopardise your relationship with important suppliers
- Track your expenses; do not spend money unless it is necessary and will give you a return on the investment or assist in making your employees more productive in their job
- The most common reason for smaller businesses' failing is that owners draw money from the business before understanding the cash impact on the business in the longer term
- Carefully track your sales monthly: are they in line with your projections? Determine the reason why or why not. Corrective action may need to be taken quickly. Refer back to your marketing plan and critically evaluate whether it is still applicable. This may be a time when you believe that the sales projections are still reasonable but that timing is more the issue. You require extra financing to keep you going for another month or two. Banks will want to examine your business plans and financial projections before they make a decision to lend you money.

The case for a loan therefore has to be a sound one. Cash flow fluctuations are normal; ensure that you manage that cash accordingly.

- Lease equipment such as copiers, computers and cars rather than buying it; although leasing may be more expensive in the long run, it assists the business to avoid laying a lot of capital all at once, especially when you are unsure of the extent of its use.
- Do not waste anything that can be recycled or reused as, over time, such costs build up. For example, paper spoilt by the printer can be used for notepaper.
- Many businesses also employ full time people too eagerly. Where possible, rather outsource non-essential work (independent contractors) so that you minimise your regular commitments. Existing staff should not be inundated with work either. So, again, a careful management process is required to keep a balanced perspective in this regard.

Get your cash management and working capital right, and together with appropriate systems and procedures, you will have the basis for a sustainable and successful business.