

Finance Tips: Keeping Cash Flowing



Poor cash flow is one of the main reasons for business failure. For small and medium sized businesses, the real key to success is maintaining a good flow of cash through your business enabling you to purchase raw materials, new equipment and pay staff wages.

- **Always conduct a credit check against your customers.** While it is tempting not to check a new customer's credit history to save time, it is vital to carry out these checks to ensure your customers are able to pay you for your goods or services. Trade with companies that are not only creditworthy but also have a good track record of paying bills.
- **Review credit checking procedures** - run credit checks on your existing clients on a bi-annual basis to ensure their financial situation has not changed.
- **Set out your terms and conditions.** They are designed to protect your rights, limit your liabilities and provide you with some security; they need to be clearly stated on all relevant documentation to both existing and new customers.
- **Payment terms** - these need to be set at the beginning of a relationship with a new customer and followed up with written confirmation, so every party knows where they stand. If your business terms are seven days or 30 days, make it clear.
- **Get the admin right** - always check your invoices. Avoid invoices being returned by addressing them to the proper department and a named individual if possible, including details of the job, a purchase order number, the correct amount, your business terms and a date, and your VAT registration number if you are registered.
- **Invoice today** - don't put it off. Issue invoices immediately on completion of the job and follow it up with a phone call to check if they've received it and that all details are correct.
- **Keep an eye on what's happening around you.** Are your customers acting differently? Are they hard to get hold of? Are they sending you post-dated cheques?
- **Credit control** - don't be afraid to adopt a follow-up system. Issue statements and reminder invoices. Call your customers if their payments are late. Keep clear records and having a good filing system so you know when payments are due.
- **Taking stock** - always manage your stock levels. Plan ahead and don't hold too much stock of raw materials or finished goods. Holding stock costs you money. Arrange more frequent deliveries from your suppliers so that stock levels can be kept to a minimum.
- **Manage your suppliers** - shop around; negotiate longer credit terms and volume discounts.



- **Communicate** - remember to keep everyone, your bank, suppliers and customers, up to date. Keep people in the picture.
- **Keep the cash flowing** - think about alternative ways of managing your cash. Other ways of funding business growth, such as factoring, can provide a more flexible source of funding. Invoice finance can boost a firm's cash flow by raising finance based on the value of sales invoices, paying up to 85% of those invoices as they are raised.
- **Understand your rights** - if you have a long outstanding payment, consider charging the customer interest. As a small firm, the law gives you the right to charge interest on all late payments owed to you. The rate you can charge is the Bank of England base rate, plus 8%.
- **Encourage fast payment** - encourage your customers to pay on time, offering early payment discounts if they pay within a certain credit period.