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Our guide to
controlling cash
in your **business**



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Most business owners know the phrase ‘Cash is King’; it’s easy to say yet holding on to what can be a very elusive commodity can be a constant battle.

Our guide to controlling the cash in your business is designed to help you cover the basics, which are straightforward. The key is making sure that you bring more cash into your business than you release from it.

Whilst true business success comes from profit, and not cash or turnover, a business can survive for a while without making a profit, but it simply cannot survive for any period without cash in the bank. If you can generate enough cash to build them, a business can use reserves to survive a lean patch, and can react to opportunities and challenges as they come up.

There are several basic principles to take control of the cash in your business:

1. Monitor the flow of cash into and out of the business

At its simplest level, a cash flow forecast is simply a list of money coming in to the business, with the money that is due to go out coming off it. The remaining balance is the cash the business has left.

It is staggering how many businesses do not have even the most rudimentary form of cash flow forecast, though they have staff to pay, contracted overheads and commitments to honour.

Of course, monitoring cash flow can be complex, but it is paramount to know exactly where you stand as a business owner. With a clear idea of how your cash forecast looks, you can identify the times of the year which need more sales effort, where you may need to source working capital, and address those dips before they arrive.

The reverse is also true too! By having a forecast to look at, you can see when you may be able to make the purchase of new hardware, or invest in the new machinery that you will need, but you will also be able to see that, though the cash position looks healthy this month, those reserves are needed to carry the business through the leaner season to come.

Improvements in cash flow can help reduce the burden of overdraft funding on a business, reducing costs and improving the cash position in the long term. Getting payments in from customers sooner in the sales cycle can have a significant effect here, which can allow the business to take advantage of early payment discounts that suppliers may be offering. Think about things like stage payments and deposits to get funds into your account at an earlier point, rather than waiting until all the work has been completed.

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Expansion can place huge pressure on the business, as it seeks to find funds for new recruits, to move to new premises, or simply to purchase more raw materials or products. It is at this stage that many businesses turn to banks or finance sources and are shocked when the response is less than favourable, which is usually because the lack of financial control quickly becomes evident. Planning for expansion, or even a successful marketing campaign, at an early stage can prevent problems later.

Monitoring cash flow should become a daily discipline to ensure the information is always current, but it is also something that should be a consideration throughout the business, so that every member of the team is aware of its importance and the impact careful management can have on the health of the business.

There are several very easy to use software Apps that bolt on to the cloud based accounting systems now, that make cash flow monitoring very straightforward, but this really is a case of 'something is better than nothing' so a more traditional approach would still be a vast improvement over no monitoring at all!

2. **Have robust credit control processes and follow them – always!**

Clear terms and conditions are the starting point to a strong stance on credit control. Make sure your terms are clearly laid out with your proposals and quotes, so that there is no doubt that your customers and clients are aware of them before the work is done. Ask for a signed copy to be returned to you for maximum protection.

It is one of the best investments a business can make to get a solicitor to review your terms and conditions to ensure that they are robust for the way your business operates, and takes account of the different markets you operate in. For example, if you offer services to both domestic and commercial customers, it is likely that you may have different payment terms for each, or for larger projects, where deposits and stage payments may come into play. Take account as well of the legal right for domestic customers to cancel up to seven days after agreeing the order. As a business grows and products and services change, keep in mind the fact that your terms should probably change too.

Consider whether you are comfortable in giving credit to someone else's business; are you happy to subsidise them? You may want to carry out a credit search before you do, or ask for payment up front for the first projects. There are a number of websites where you can carry out a credit check either by paying a monthly subscription or on an ad hoc basis, or banks and some accountants have the functionality on their websites. Either way, be careful!

So, the work has been done, now make sure that your invoice is issued promptly. This really can be an area where businesses let themselves down, leaving the issuing of invoices until the end of the month, or worse. Send your invoice as

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soon as the work is completed, ideally electronically, and ensure your payment terms and bank details are clearly marked on it.

There are many ways to follow for payment from here, but the key is to be consistent and keep clear records of what promises are made and who by. Follow up all conversations with either an email or a letter, and diarise to call or chase again when key dates arrive.

Be firm but polite at all times, and make sure that you are clear about what you want to happen, whether that is to receive a cheque by return or to receive funds into your bank in seven days.

Again, there are now many software Apps that can issue reminders at regular intervals, significantly reducing the administrative burden of chasing payments, and having a similarly significant effect on average Debtor Days.

If you maintain contact with the debtor, you will get a feel for whether the delay is reasonable or whether there may be reason to worry. If you are worried, speak to the person who employed your services, or perhaps to your solicitor. A letter from a solicitor can prompt payment, but can also adversely affect the ongoing relationship between you and your customer, so give this careful thought.

Don't be afraid to 'stop' accounts where you are owed money. The money you are owed should be in your account, no-one else's, and you have the right, providing your terms were clear and agreed, to have those funds rather than to add to the balance owed by doing more business with that customer. It can be a hard decision to make, but one that is important to consider!

3. Review spending & costs

As a business grows and the people within it get busy and are working hard, it can become easy to lose sight of the small costs along the way, and a decision is made to use a supplier just to get the problem dealt with. Sound familiar?

To keep a close eye on cash within the business, you need to make sure the spending decisions you make are the right ones. Of course, the cash flow forecast we talked about earlier will help, but every expense should be challenged in some way, to make sure that it is worthwhile and is the best solution for the business. The latest beautifully designed gadget may look great, but is it going to give you a correspondingly huge improvement in productivity to justify the hefty price tag?

It's also well worth speaking to suppliers on a regular basis to see if their prices are still the best they can offer. Whilst we are not advocating pressuring small businesses to reduce their prices, things do change, new products and services become available and it may be possible to tweak your needs to benefit from

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reduced prices. Consider a trade to reduce costs; it may be more efficient for a supplier to deliver on a specific day of the month than to be called upon at random; if you don't ask, you'll never know!

4. Spot the warning signs and act FAST

When a business is thriving, it's very easy to lose sight of the details, but there are signs that should trigger warning bells in a business owner's mind, and it is at that point that action needs to be taken to improve the situation. Ignore them and the business may well come under too much pressure to survive.

So when should you be concerned?

- a. Orders slowing. Every business has its busy periods, or may be affected by peak holiday periods, but if orders or new customer numbers drop significantly, action needs to be taken. Why have they tailed off? How can that be reversed? Can new markets be found? If you know the numbers in your business you can identify the dip before it becomes a major concern and take the necessary steps.
- b. Delaying payments to suppliers. Good relationships with suppliers can really help a business bloom, so the last thing you should do is hold back payment to those people that keep you trading.
- c. Aged Debtors increasing. Essentially people are taking longer to pay you. This alone can cripple a business that is selling well and has a good pipeline; if people aren't paying and there is no cash in the bank, it will grind to a halt very quickly.
- d. Increasing bank charges. Using an overdraft more regularly is a clear indicator that something is wrong. Such a facility should only be used for short-term borrowing, and isn't for regular use.

But what can you do?

Review your numbers; if you keep your records up to date, you should see the worrying trends developing before they become an issue, in which case you are more likely to be able to make some quick changes and improve matters. If not, speak to your bookkeeper or accountant to get their advice and help.

Accountants should have good relationships with the banks, and your advisors can work together with you to find a solution to the problem and devise an action plan to improve matters. Contrary to popular perception, if banks see that an issue is being addressed, they are more likely to be supportive than to be negative; that comes later, when they are raising the issue with a business owner who is blissfully unaware of the problem's existence!

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All of these areas are pivotal to the success of any business; give them clear thought and consideration and not only should the control of cash within your business improve, but through an improved awareness of the way the business is working and better controls, you will also see improvements in other areas of your business too.

Your own accountant should be able to help you implement any of the steps we have outlined above, but if you think a second opinion on any aspect would be useful, or you aren't getting the support you would like, please call or email us to arrange a free, no obligation initial meeting when we would be very happy to listen to your concerns and offer suggestions and ideas to help improve things for you.

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Disclaimer: This list is meant to prompt careful review of your existing arrangements only and is not designed to be a replacement for professional advice tailored to your precise needs and circumstances.

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