

Managing Cash Flow

It's the old story – when business is growing, cash is tight. When it's slowing, cash is tight.

The frustrating thing for many business owners is that the company may be profitable but they never seem to have enough cash. As your accountant will tell you, profit is opinion, cash is fact. However, they'll also tell you that cash flow problems may be a symptom rather than the actual problem. You don't have to have cash flow problems.

There are things you can do immediately to improve cash flow.

1. Monitor your debtors. Identify your chronic late payers by name. If they're slow payers, change the way you bill them or stop dealing with them until they've cleared their account. Whatever you do, don't go on providing goods and services to them in the hope that one day they'll pay up. They won't. Instead, one day someone else will take action and you'll find yourself at the end of the queue.
2. Increase your prices. You have to lose a lot of business before you start going backwards in terms of profit. The income from increased prices goes straight to your bottom line.
3. Enforce your terms. Stop lending your customers interest-free money.
4. Tighten up your terms of payment. Make your terms 7 days from receipt of invoice. But don't alienate good customers by pursuing them 10 days after the invoice, when you know they are regular payers on the 20th. But shortening the term does mean you can legitimately go back to them if you haven't received payment when expected.
5. Free up cash by selling off surplus equipment or getting rid of slow moving stock.
6. Buy second hand wherever possible.

There are some longer term changes you could make as well. For example, you might consider changing your business model to improve cash flow by “unbundling” your product or service and getting early or progress payments.

Other businesses do things like get deposits to cover things they call engagement. These include establishment, setup costs, sign-on fees, retainers etc, and give the impression that it is a down payment to secure a priority place in your schedule.

Sometimes poor cash flow reflects poor positioning. People are seldom reluctant to pay when they perceive value, but it's up to us to create that perception. Appearing over-eager to get their business through discounting or special deals which hurt cash flow and the bottom line gives the power in the relationship to the buyer.



Another form of poor positioning is taking on clients and customers who you know are likely to be poor payers. This is known as ‘the dance of the desperate’. You take their custom because you feel you need the revenue, and they take your offer either because they need it cheap or because others won’t supply them. Time spent with low value customers is time you can’t spend on high value customers.

All these ideas assume that cash flow problems are a matter of timing. Freeing up cash will create some headroom, but that buffer will soon disappear if:

- your price is wrong
- your product mix is such that you’re spending a lot of time and effort on small “collects” rather than focusing on the bigger payouts
- your costs are out of control
- your marketing system is not producing a steady flow of qualified customers

In other words poor cash flow might be a symptom, rather than the disease itself.

A few months ago I was talking to a guy who had bought a specialist engineering company. His worst customer in terms of pricing and payment was unfortunately also his biggest, accounting for 25% of his revenue. After a few months, he went to the customer and said “this is the price, this is the payment date, and here is the setup fee”. The customer vowed to never deal with our man again. But he remained resolute. He was able to fill the workshop with better priced work, because in the past the D class customer had always taken most of his capacity. Turnover, profit and of course cash flow all improved immediately. And after a few months, the customer started putting work his way again, because no one else could match the convenience and quality. Funnily enough the previous owners had always competed on price, when what their customers really valued was something else entirely.

Tight cash flow is often a symptom of a struggling business in the early days. But it gives us an opportunity to look at the health of the whole business, and identify ways we can improve it. The thing to remember is that responsibility for cash flow rests with us, not our customers, or our staff, or our business. When we own the problem we can start doing something about it.

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