



Top 10 Tips: Improving Small Business Cashflow

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Focus on cashflow



Lack of cash is one of the biggest reasons small businesses fail, so the importance of focusing on cashflow cannot be overstated

- ✓ **cash flow:** is simply the movement of money in & out of a business over a period of time
- ✓ **cash vs profit:** your business can make a profit, but run out of cash as profit is purely an accounting concept. You can have assets, like accounts receivable (money owed to you by customers), but if you can't collect what's owed, your business will struggle!
- ✓ **bank account:** while a separate bank account is not a legal requirement for a Sole Trader (it is for a Limited Company), I would strongly recommend that you set one up, making it easier to track all your business income & expenditure

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Managing cash flow



There are far more exciting things to focus on when running your own business, but there are few things as important as managing your cash flow:

- ✓ **cash flow management:** is the process of tracking & analysing how much money is coming into & out of your business
 - closely monitor your business bank account
 - analyse cashflow trends, to ensure you always have money available to pay upcoming expenses
 - organise access to short-term credit, especially if you run a seasonal business, as unauthorised overdrafts can prove prohibitively expensive
 - proactively manage your accounts receivable balance (money due from clients) to minimise late payments. According to one report, small businesses in the UK are owed on average £6,142

Good Cash Flow = Success

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Cashflow forecasting



Cash flow forecasting involves predicting the future flow of cash into & out of a Businesses' bank accounts

- ✓ prepare & keep cash forecasts up-to-date for the next 6-12 months, so you can plan for large bills (tax, rent, capital expenditure etc.)
- ✓ keep your cashflow forecast simple:
 - columns represent the chosen time period (months, weeks etc.)
 - each income or expenditure type should have it's own row:
 - income from sales, investments, or other funding in your 'money in' rows
 - utilities, wages & rent in your 'money out' rows
 - total rows that add up the total money out & money in
- ✓ the key output is your monthly closing cash balance. If it's close to zero or negative, then it likely needs your attention / action!
- ✓ many accounting software packages include cash flow forecast functionality, automating much of the process for you

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Customer acquisition



Remember that receiving an order is only the first step: you shouldn't make the mistake of getting too excited without taking steps to verify whether your customer will pay

- ✓ take time to carry out the necessary due diligence on perspective clients (supplier references, credit checks etc.) even when sales are slow, otherwise you leave yourself open to late payment & even fraud
- ✓ consider requesting a deposit / upfront payment before work starts
- ✓ ensure that credit terms are kept to a minimum & clearly stated in the contract
- ✓ consider whether it would make sense to offer an early payment discount
- ✓ whenever possible, ensure you do not rely on just 1 or 2 clients for the success of your business
- ✓ monitor client profitability & look to end unprofitable relationships

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Collecting client payments



‘Somehow, despite offering great service we get all shy about asking for money & insisting it gets paid on time’

- ✓ always raise invoices on a timely basis: if a client doesn't receive an invoice then you won't get paid!
- ✓ make it as easy & convenient as you can for clients to pay you
- ✓ consider using cloud accounting software, where invoices can be raised, viewed & paid online
- ✓ persuade clients for who you do on-going work, to set up a Direct Debit or Standing Order: offer an incentive, such as a small discount
- ✓ put a robust system in place to continually track & pro-actively follow up on unpaid invoices: automated reminders, phone calls etc.
- ✓ where a client has a history of late payment consider withholding goods / services or potentially ending the relationship

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Paying Suppliers



Pay your suppliers at the 'right time'

- ✓ if your contract gives you 60 days credit for example, then only pay after 60 days
- ✓ although it might be tempting to pay everyone off as soon as you get a large payment in, keep to your schedule!
- ✓ only consider paying a supplier early, if they offer an attractive early payment discount
- ✓ time your payments strategically to make sure you're not draining your bank account all at once
- ✓ consider spreading payments throughout the month where possible, taking into account when income is normally received
- ✓ always look to avoid routinely paying suppliers late. Although short-term it is likely to boost cashflow, longer term it will negatively impact your business

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Cut expenses



It's easy for operating expenses to start outpacing revenue as your business grows, so keep a close check on these numbers to ensure you remain profitable

- ✓ analyse a few months' worth of bills to figure out which expenditures are the heaviest financial burden on your business & concentrate on reducing these:
 - with the trend towards more home working, consider a new hybrid model reducing the amount of office space required
 - **do not** show loyalty to your current utility providers. Always shop around for the best deals (at least annually) & be prepared to switch provider
 - regularly review your listing of direct debits, standing orders, subscriptions & stop those you no longer need
 - use the power of social media to promote your business as much as possible, reducing advertising & marketing costs

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Manage Inventory



One nightmare scenario for business owners is having hard-earned money tied up in idle or wasted inventory ('stock')

- ✓ an effective inventory management system is crucial for your business's profitability, by helping you keep inventory costs under control, while maximizing sales
- ✓ avoid overstocking items "just in case". Excess inventory not only ties up valuable cash flow, but it also costs more to store & track
- ✓ track sales: understand on a daily basis, what items you sold & how many, keeping your inventory updated. Analyse this data & look for trends. Is it seasonal? Is there a specific day of the week when you sell certain items? Do some items almost always sell together?
- ✓ audit your stock: regardless of how often you do it, make it a point to physically count your inventory regularly to ensure it matches up with what you think you have

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Short term funding



For any small business, it is important to understand when short-term finance might be needed, to maintain a positive cash flow

- ✓ **overdraft:** if there is any possibility of being overdrawn, even for just a few hours, then make you have an arranged overdraft in place with your bank. An unauthorised overdraft can be very expensive!
- ✓ **trade credit:** this source of finance allows a business to obtain raw materials & stock, but pay for them at a later date. This must be agreed with a supplier & forms part of the credit agreement
- ✓ **lease vs buy:** consider leasing rather buying, allowing payment to be spread out over a period of time, rather than requiring a significant cash outlay upfront. Assets can also be sold & leased back, giving the business an immediate cash injection
- ✓ **loan:** take out a loan from either a bank or P2P lender, that is paid off over an agreed period of time, with a fixed rate of interest

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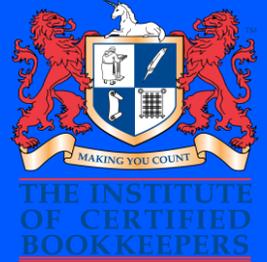
Leverage technology



Embrace technology to both manage & improve your cashflow

- ✓ cloud accounting software such as QuickBooks, Xero, Sage etc., can improve your business cashflow in multiple ways:
 - wherever you are, check your business performance in real-time: you just need an internet connection!
 - integration with your bank account, provides total visibility on money coming in & out of your business as it happens
 - automated cashflow forecasting, supports decision making
 - invoices can be immediately raised & sent electronically, so a client receives it within minutes of approving a quote
 - add a payment button within an invoice, making it easy for clients to pay via credit card, bank transfer, PayPal etc.
 - inbuilt credit control, in the form of automated emails to your customers when the invoice is becoming due, overdue, etc

**For more
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