

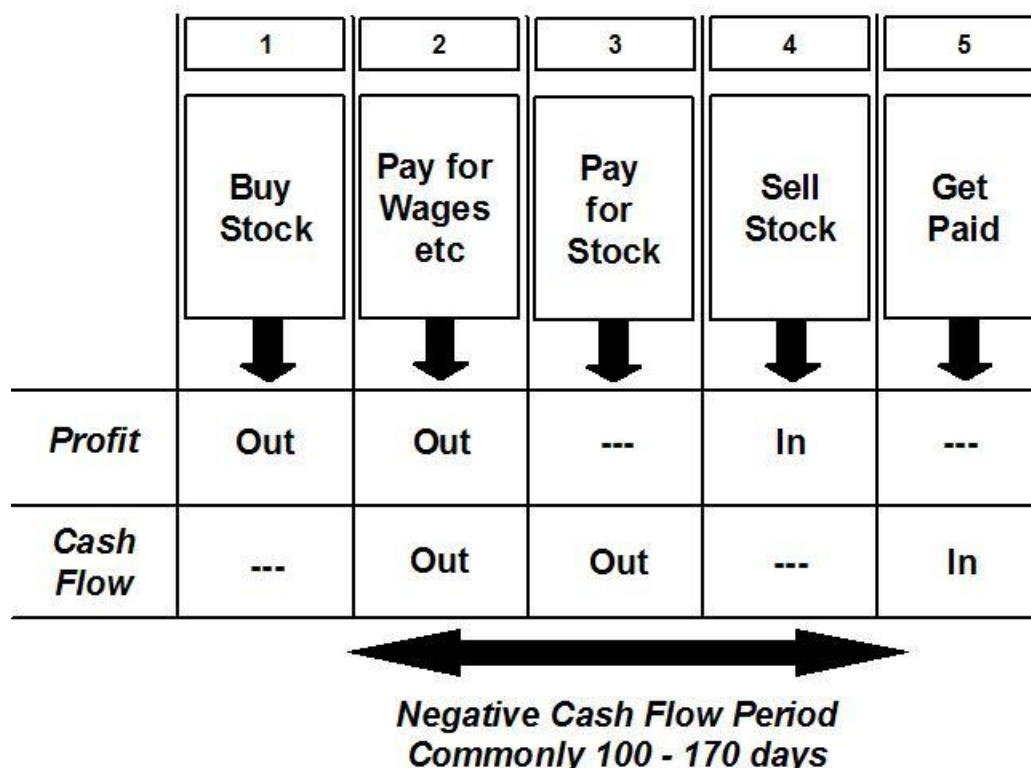
Where's the cash

Planning and managing your cash flow is critical to your success says David Espiner of Business Advice Ltd

Most people would not dream of just jumping in their car or on a plane and going on holiday – they plan most things well in advance and usually down to the last detail – yet they will run their business with little or no planning or forecasting – for both profit and cash flow.

In any business, from the largest to the smallest, "cash rules". If you have cash you have a greater ability to develop and grow your business. The careful and successful management of your cash flow is therefore critical to the success of your business. Even businesses that are unprofitable at times can survive the tough periods and emerge back to profitability if they have cash flow. On the other hand, a consistently profitable business can still falter through poor cash management.

The first and most important thing to understand is that profit and cash flow are quite different. The diagram outlines the difference between the two.



The number of days between steps 2 and 5 represents your negative cash flow days – Complete this exercise for your business – it may surprise you – 171 is a common number of days but it can vary according to the business type. It is not usually less than 100 days.

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The purpose and most important benefits of cash flow forecasting and monitoring are

- § You will know when you can spend and when you need to hold money back (or arrange credit facilities) to pay bills.
- § It helps you avoid unpleasant and embarrassing surprises and / or unexpected bills, particularly those one off or periodic ones e.g. tax, insurance etc.
- § Allows you to put money aside (or make funding arrangements with your bank) well in advance to meet your commitments and to invest in growth.
- § It gives you a better understanding of your business and what makes it work.
- § It creates open and more beneficial relationships with your business advisors and banker.
- § It results in a more structured and better organized business, with more cash and less stress

How to avoid cash flow problems and surprises

Ensure your accounts are up to date and accurate – you can't manage what you can't measure. Remember an item is not sold until it is paid for so don't look at paperwork, such as invoicing and credit control as non-productive. If you understand and act on your cash flow planning you will have a better understanding of what makes you money and what does not.

Make sure you realistically forecast the timing of all credits and payments. Ensure you cover all costs. It's a good idea to talk to your advisor who will be able to give you a checklist of all items to be considered.

The key cash flow indicators

- § Compare actual results against your forecasts – this month sales is usually next month's cash flow.
- § Find the key indicators (financial or non-financial) that will tell you if your business is on the right track. For instance sales per employee or industry statistics.
- § Use common measures - Stock turnover, work in progress days, debtors days, creditor days - An increase in the first three means cash is being tied up in the business, which will have a negative impact on cash flow.

An easy action plan

- § Forget the excuses –“I don't have time”, “I can't forecast my business”, “my business is constant so I do not need to”, “I never go into overdraft”.
- § Sit down and first predict your expenses (cash out) for the next 12 months on a month by month basis.
- § Then estimate your income (cash in) by month. You should consult your advisor and get them to review and if necessary fine-tune it.
- § Deduct the expenses from the income month by month, to see when you will be short of cash, and by how much.
- § Think about how long it took you to get all the necessary information together – and decide whether to review your systems to make it easier next time.
- § Send a copy of your worksheet to your bank and meet with them to discuss your requirements for the upcoming 12 months.
- § Monitor actual results against the forecast – if you have difficulty either your systems need reviewing or you should get your advisor to show you how or to do it.
- § Keep it simple but accurate – your business's lifeblood is cash flow.

David Espiner is the Director of Business Advice Ltd, Chartered Accountants and Business Advisers.
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