CASH FLOW MANAGEMENT

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You can effectively manage cash flow and the often resulting lag between payments in and payments out by introducing a cash flow management system.

This does not have to be a complicated system but simply a list of steps as per the following that you always undertake to help minimise the lag period and avoid the potential for a cash crisis.

These simple steps can include the following:

- Ask your customers for shorter payment terms at the time of sales negotiations.
- Seek contract down payments and payment in advance for major material purchases.
- Get bills out quickly and chase debts promptly and firmly.
- Consider offering a small discount for prompt settlement of bills.
- Ask for extended credit terms with suppliers.
- Order less stock but more often.
- Lease rather than buy equipment.
- Review the profitability of your selling prices.

Other steps you can implement to help you manage your long term cash flow include:

- Keep cash flow forecasts up-to-date: ensure that your forecasts are up-to-date and accurate, and where possible, use actual figures (not budgeted). If you come across any changes in your forecast, always update it quickly.
- Be aware of changing market & external conditions: this means you need to be conscious of any changes that may affect your business such as changes in demand, increased competition and new technologies, rising interest rates, economic downturns etc.
- Avoid over-investing: while using extra cash to purchase assets for your business can improve productivity and competitiveness, it can be very useful to retain backup funds to cover any unexpected costs that may arise, such as repairs for breakdowns of equipment.
- Manage inventory: purchasing supplies in bulk may increase savings, however, having excessive amounts of stock may tie up funds that can be better used elsewhere.

Credit management:

While providing attractive credit terms can be popular with customers, it can also place pressure on your cash flow by extending the lag between payments in and payments out. You also need to manage the risk of missed debtor payments, aging debts and credit default as each of these can have severe implications for your cash flow.

A credit management system can incorporate a range of measures to minimise the overall amount of money a business has tied up with debtors. These can include well defined credit policies, preventative measures to minimise the risk of credit defaults, incentives for on-time or early payment and reasonable credit terms and conditions.

The following points can be incorporated into your credit policy and followed prior to providing credit:

- Conduct a credit check on new clients.
- Ensure that your credit policy and conditions are clearly explained to your clients.
- Ensure all agreements, including the conditions of credit, are made in writing and signed.
- If practical, collect a deposit or pre-payment before supplying goods/services. Alternatively you may collect progress payments to reduce the risk of bad debts.
- Implement a structured practice for following up overdue debts. In the first instance, this may involve making a phone call, visiting your clients or sending a polite reminder letter.

You should remember that you are not obliged to provide credit to risky clients.

Cash Flow Statement Templates:

- Small Biz website Cash Flow Statements online templates: toolkit.smallbiz.nsw.gov.au/part/6/27/134

More Information:

- The Australian Government Principal Business Resource: www.business.gov.au
- Refer to Cash Flow Statement Fact Sheet

www.bathurstregion.com.au/building-bathurst/

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