Winning the cash flow battle: Advice for SMEs

Cash flow, the universal problem that almost any entrepreneur can relate to. Most SME owners experience cash flow difficulties at some point in their business journey. A business may be profitable, but if cash flow isn't adequately managed, it doesn't take long for debts to spiral and for everyday operations to run into issues.

When it comes to winning the cash flow battle, a strategic approach is necessary. As with any battle, the best way to ensure success is by preparing your troops for all possible scenarios. If you're not sure where to start, follow these tips to give your business the best fighting chance of victory.

"For every business, the cash flowing into a company is essential for covering the day to day expenses necessary to operate a business. It keeps lights on and doors open; **cash flow is truly the life blood of a business.**"

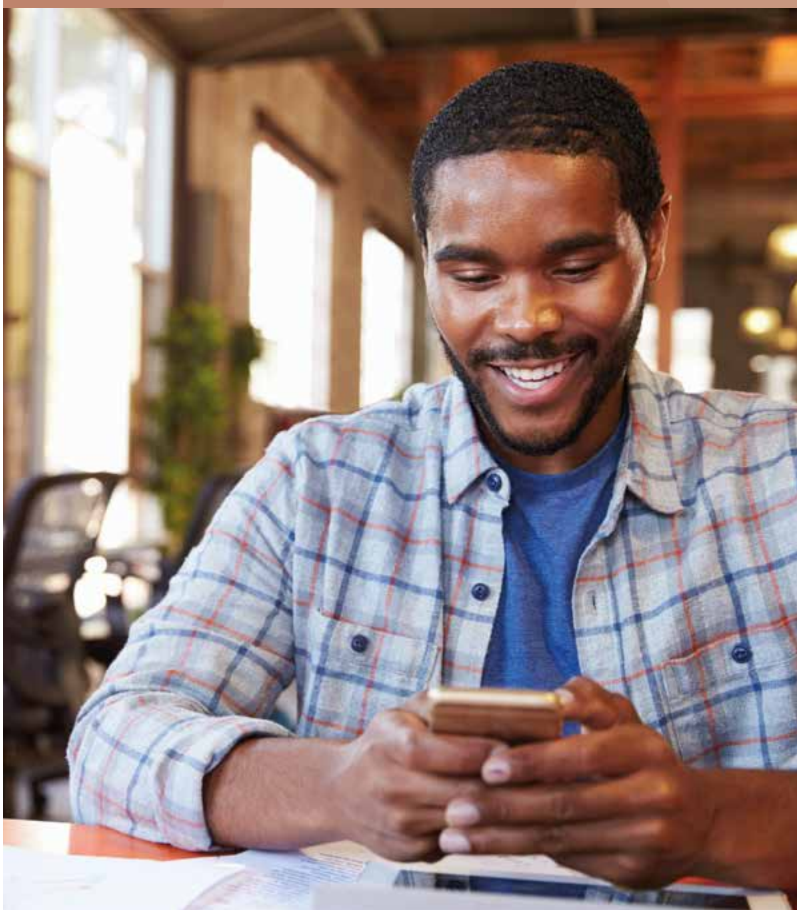
- Marco Carbajo
(Small Business Administration)

Why is cash flow so important?

If you imagine your business as a car, cash flow is the fuel that keeps your vehicle moving forward. Companies need cash flow to cover everyday expenses such as employee wages, rent payments, office equipment and other important business needs.

When a business is in positive cash flow, it means its cash inflows are exceeding the outflows. In other words, there is more money entering the business than leaving it at a given time. Positive cash flow results in a business being able to cover its financial obligations, which is fundamental to maintaining growth.

Negative cash flow on the other hand, means that a company has insufficient funds available to cover expenses, a place no business wants to be.



How can I improve my business's cash flow?

As mentioned, managing cash flow is no easy feat. There are lots of factors at play that can impact a business's ability to adequately manage its cash flow. From low profits to delayed payments, the causes of poor cash flow are vast.

That's not to say there aren't steps you can take to prepare your business to fight against potential issues. By prioritising your business's cash flow strategy, you put it in a good position to combat problems as and when they arise.

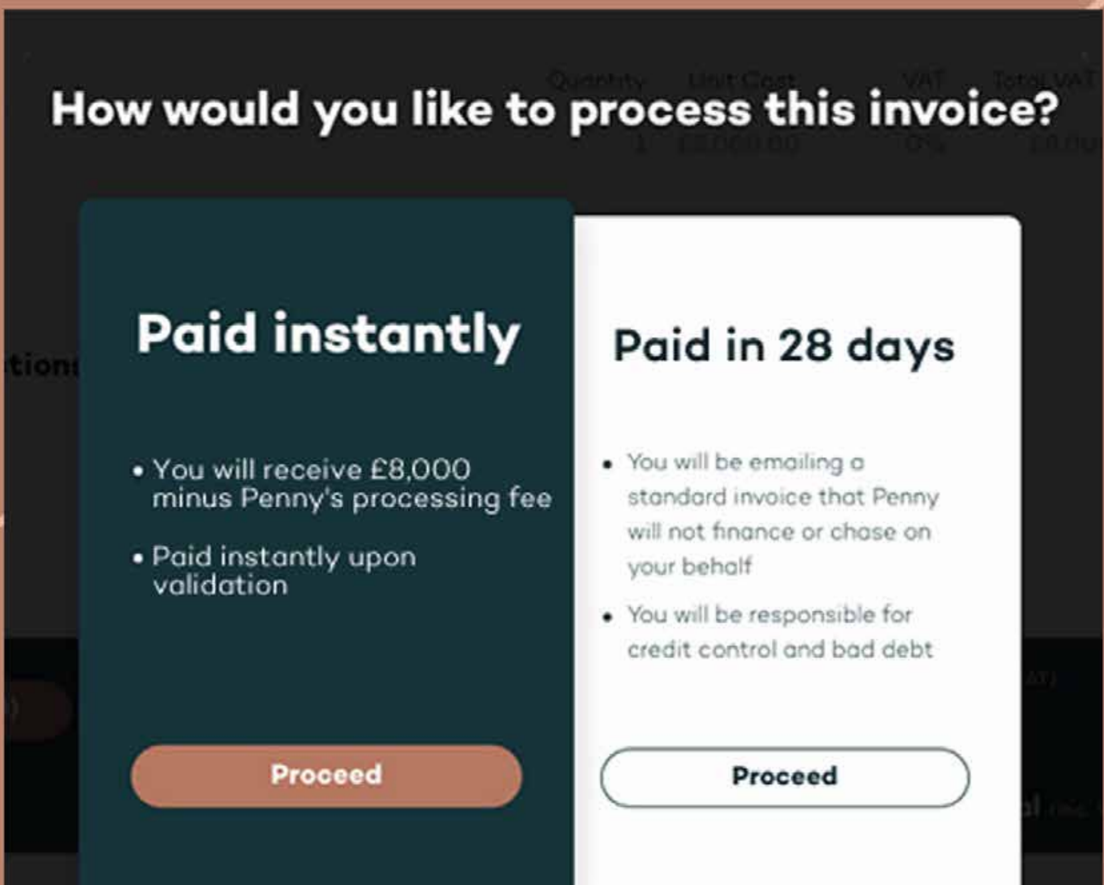
Your cash flow strategy will depend on the problems you find within your own firm. However, these tips provide a great starting point.

Financial planning is everything

It goes without saying that careful financial planning is key. Budgeting will help ensure that your business isn't overspending and you should aim to save enough money to set aside as a buffer or financial cushion to help cover unforeseen events.

No one could have predicted the Covid-19 pandemic. If there's one thing it has taught us, it's the importance of keeping cash reserves to better navigate such emergencies.

Make sure you keep up-to-date financial documents that are detailed and accurate. This includes income statements, cash flow statements and balance sheets.



Make use of accounting software

To help you keep on top of your business's finances, company expenses should be tracked effectively. Accounting software can be used to speed up this process, helping you keep tabs on expenses and provide a clearer picture of where money is moving across your business.

Not only does the use of software save time, it offers features such as categorisation and cloud access. It also makes it easier to keep track of bills that your business needs to pay, helping you to avoid late fees and accumulating interest. On the flip side of this, such software is also beneficial in keeping tabs on your client or customer's invoices. helps with tax obligations to ensure you have enough money for the year end.

Conduct customer credit checks

If your business experiences late paying clients, it might be time to conduct credit checks before agreeing to work with new customers. Doing your own credit research allows you to keep control and work out how much of a risk they pose to your business.

These checks give you an insight into an individual's financial situation, providing you with a better idea of whether or not they will be able to make payments on time.

Included in the credit checks are any CCJs and bankruptcy filings. Whilst this may seem like an extreme measure to have to take, it's better to be safe than sorry and ensure you do your due diligence.

Option for equipment leasing

If your SME uses a lot of equipment or machinery, you should consider leasing instead of buying outright. When purchasing equipment, you usually need to tie up large amounts of cash in down payments, which makes little sense and can deplete your accounts.

Leasing on the other hand, allows you to rent the equipment for smaller, more manageable monthly payments, keeping costs at a low. This option can also help to reduce your tax burden, as they are usually tax deductible against your business income each year of the lease term.

Conquering cash flow

Businesses face battles every day. Amidst uncertainty, one thing's for sure - it's never too late to make changes in your business, so don't wait to get the ball rolling!

A lot of it will be trial and error and you should be prepared to adapt your strategy as and when your business needs it. It won't happen overnight. But over time, you'll find it easier to maintain your business's working capital and get closer to winning the cash flow war.

Get serious about payment best practice

One of the biggest causes of poor cash flow for businesses is late and unpaid invoices. SMEs across the UK suffer from delays in payments for their products or services. In fact, UK businesses are owed £23.4 billion collectively in late payment debt.

For this reason, your cash flow strategy should focus on best payment practice and fighting off potential late payers. There are a number of ways you can do this:

- Issue invoices promptly
With payment terms lasting up to 30 days, it's crucial that you close the gap as best you can by not delaying sending out invoices once work is complete. If your business works on lengthy projects with its clients, divide invoice payments up into monthly chunks.

- Draw up a contract
Your contract should include clear payment terms and outline the steps your business will take in the event of late payment. This may include charging late payment fees or seeking legal action.

- Send out invoice payment reminders
Set a timeline for following up with your clients about their invoice payments. Email reminders with payment links makes it easier for customers to make payment, which can help to drive results.

- Offer incentives for early payment
In order to help ensure that your business receives payment in shorter cycles, consider offering a small discount of 1 - 2%, or another type of reward for early payment.

- Consider financing your invoices
If your cash flow dips, you have the option to finance your invoices in advance. This helps to eliminate worry as to when your business will get paid for its products or services. Invoice financing platforms like Penny let you access 100% of the invoice amount in return for a small fee. **Find out more**

Get in touch with Penny

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Email **hello@pennyfreedom.co.uk**
Click **www.pennyfreedom.co.uk**

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