



## **Factors Affecting Positive Cash Flow**

Many small to medium size enterprises find cash flow management a tricky area, often feeling they're squeezed by customers on the one hand and inflexible payment terms from suppliers on the other. Too many businesses go bust, not because they don't have a healthy order book or plenty of work lined up, but because they run out of cash. It's an old adage but CASH IS KING.

There are many factors to take into consideration in order to maintain a healthy and positive cash flow. Here are some of the key areas to consider:

### Getting your money in as quickly as possible

1. Consider taking deposits and introducing staged payments if the service is spread over a period of time. This not only brings in the money earlier but also reduces your risk should a customer default at some future point. Obviously, go for payment upfront if you can.
2. Invoice as quickly as possible – no more than 3 working days from the point at which you can first invoice
3. Agree payment terms up front – and don't offer to long a credit period. Consider 7, 14 or 21 days. Longer than 30 days and you're likely to feel it pinch!
4. Incentivise early payment – e.g. offer a small discount if the customer pays early
5. Use the Late Payment Legislation to protect yourself – it's easy to use
6. Remind repeat "late payment offenders" that a payment is about to fall due and impose rules which say "I'll accept your new order once you've settled your outstanding amount"

### Control Your Outgoings

1. Get the best possible terms from your suppliers
2. Settle invoices as late as possible within the agreed terms (the money's better in your account than theirs!)
3. Don't make rash purchases
4. Don't hold more stock than you need as this can tie up funds unnecessarily
5. Paying by credit card can give you good periods of credit but make sure you settle the bill before interest charges kick in
6. Develop a cash flow forecast to indicate what might happen under different scenarios (e.g. what happens if that big client delays the payment by a couple of weeks?)

Cash flow management will always be difficult if you've selected the wrong *pricing structure* or you're simply *not selling enough* so don't overlook these two key areas either.