

## Tips for improving your businesses cash flow

As I like to tell anyone who will listen, "Turnover is vanity, profit is reality and cashflow is sanity". I hope that the tips below keep you sane:

### Your Customers / Accounts Receivable

#### 1. Accepting Customers / Orders / New Business

- Every serious business should have a strict **credit policy** which has been properly communicated to all staff and customers.
- Every customer must have a credit limit. Give new customers a modest credit limit to begin with. This can be increased as the relationship develops, but never let things get out of hand.
- Payment terms especially need to be agreed from the outset.
- **Standard application forms** should be signed agreeing all "terms and conditions" and where any deviation in credit terms occur swift appropriate action should be taken. In my opinion legal action should be the last course of action. Any type of a payment plan is better than legal action which can be costly and time consuming. At the same time if you have provided a service you should be paid for that service and if you let one customer away without paying then another customer might fancy his chances of getting away without paying.
- Trade references and bank **references** are a must.
- Consider using a credit reference **agency**.
- Alternatively you could carry out a **credit check** yourself say on the Companies Registration Office website or even google your potential customer.
- Consider from the outset **discounts** for early settlement but factor this into the price of your goods / services. But do not agree to a cash discount as an afterthought. For instance if a customer has cash to pay your invoice and offers to settle the invoice for a 10% discount do not agree. The customer (and maybe other customers may then expect a discount on all future payments).
- When you're paid **electronically**, the funds are cleared and available for use on the day they're received earning interest immediately as you don't have to wait for a cheque to clear. Therefore you may consider an incentive for customers to pay electronically.

#### 2. Invoicing

- All **terms and conditions** should be pre-printed on invoices
- Send out invoices the **day you dispatch goods** / services to a customer. You cannot hope to optimise your cash flow if you are late sending out your invoices.
- Check all invoices are sent to the **correct** invoice address. Remember that this can often be different to the delivery address.

### 3. Accounting Function

- Make sure that receipts are recorded **daily**.
- Month end **statements** need to be sent out on the first week of every month.
- Always **chase early**. A polite call or email can often pre-empt a payment problem. Send a letter to suppliers encouraging them to pay you electronically (whilst it's often used as an excuse, some cheques actually do get lost in the post). Being proactive will help build relationships with your customers' accounts department.
- Possibly, demand **interest** on late payments – you are legally entitled to it. Although you have a legal entitlement to interest it is difficult to collect in practise and can ruin your relationship with your customer.
- Always **phone** up when chasing late-payers. This method of communication is very effective. Always chase the largest and oldest debts first, as well as customers that you suspect might be experiencing serious financial trouble. Be friendly, but firm when speaking with them. Have all the relevant information you need to hand (eg date of invoice, amount, reference number etc). Don't be put off by obvious delaying tactics either. Remind problem payers that you charge interest on all late payments.
- Develop a '**friend**' in your customer's company. These can prove invaluable when you're chasing unpaid invoices.
- Don't allow customers to exceed agreed **credit limits** without your permission. These have been set for good reason - you should have assessed the creditworthiness of the customer and how much your business can afford to wait for (or lose, should the worst happen).
- Set up a '**stop list**' of businesses you are not granting any more credit to. Make sure all relevant staff members know which businesses are on the list. Don't supply any more goods or grant more credit to these until they have paid all monies they owe you. Tell late-payers that they have been placed 'on stop'. With a little luck, this might even encourage them to pay you.
- Understand the **customer's payment process** and procedures e.g. if you know the date that they undertake their monthly cheque run you can time your statement accordingly.
- Consider "**pre-dunning**", calling the customer before payment is due to confirm that your invoice has been received and approved.
- Establish a **systematic** approach to issuing statements, sending chasing letters (which gradually become firmer) and calling the customers received and that there are no reasons for non payment.
- Keep copies of any **correspondence** and notes about telephone conversations. Confirm conversations in writing and if possible gain the customer's written agreement to any payment promises.
- Try to call back and **speak** to the individuals concerned rather than leaving messages on answer machines. Consider other methods of contacting debtors e.g. text messages to mobile numbers or email and fax.
- Always remain **calm but assertive** on the telephone.
- **Follow up** promptly on any broken promises of payment.
- **Shorten the process** by emailing or faxing documents rather than posting.

## Your Suppliers / Accounts Payable

### 4. Making Orders

- Explain your **payment procedures** to suppliers
- Always **negotiate** the best price possible (obviously!) but without losing quality
- You should as much as possible get a couple of **quotes** and no matter how good the relationship is with your supplier, with the current downturn there are bargains to be had.
- Consider sourcing products from **abroad**. Although you may consider this unpatriotic with the sterling for instance currently weak some of your customers will be sourcing some of their products / services from the UK.
- Also keep any eye out for a **bargain** eg. liquidation sales.
- Most of your costs eg rent, wages should be on a downward spiral.

### 5. Payments

- Pay bills in accordance with **agreed terms**.
- **Never "bounce"** a cheque or direct debit. This is bad for your business relationships and you will normally be charged both by the bank and the supplier.
- Tell suppliers **without delay** when an invoice is contested, and settle disputes quickly.

### 6. Accounting Function

- Have a proper accounting policy in place hereby only invoices which have been properly authorised and reconciled with a supplier statement have been paid
- An invoice should not be authorised until it is reconciled with a goods received note / delivery note. Also the cost of the goods / services should be checked to a quote or agreed price list.