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## ways to boost your **cash flow**

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Staring at next month's payroll with anxiety? HMRC squeezing you on your VAT request? Cash is still tight for many small businesses but your peers have ideas.

### 1 **Invoice as soon as possible**

Let's start with an obvious one, which all too many businesses neglect. Your cash flow could be much better off if you bill throughout the month, as soon as projects are completed, rather than just sending out monthly invoices. "For companies that have clients on retainers, there's no reason why you can't regularly bill earlier in the month," says Caroline Billington, director at part-time FD business FinanceHeads. "Even better, if you can arrange to invoice a client at the beginning of each month for that month's work, then you've effectively improved your cash flow by 30 days."

heavily on two or three main clients and they pay late - or not at all - the impact on your cash flow is massive," says Victoria Pooley, MD of direct marketing agency The Data Partnership. "Make sure you have a large client base, even if it's made up of several smaller clients."

### 3 **Make friends in accounts...**

Memo to your finance team: build a relationship with the accounts payable department of each client so that you know their finance process and payment terms inside-out. "Find out when and how and to whom you need to invoice," suggests Sara Gil, FD of The Lounge Group. "The better the relationship, the more likely they are to respond to you, give you the information you need, and pay you on time."

### 2 **Win more clients**

Get more customers on your books. Again, this seems obvious but it's a healthy cash and cultural change. "If you rely too



## “Never buy what you can lease, lease what you can rent, or rent what you can borrow”

### 4 ... and your bank

Be friendly with your clients and debtors, but make sure you have a good working relationship with your bank, too. “This means that if you’re in need of a temporary overdraft to cover your cash flow, they’ll have plenty of warning and you know that they’ll be able and willing to offer this to you,” adds Gil.

### 5 Stay on top of it

Be disciplined – cash flow is the most important element in your business. “You have to take a hands-on approach to cash and keep your forecasts updated, knowing what’s coming in, what’s going out and what the time frames are,” says Samantha Sida, co-founder of media group Limited Space. In other words: don’t ignore your cash flow – force yourself to look after it.

### 6 If you don’t ask, you don’t get

Many companies are reluctant to chase payments, but you’ll be surprised how easy it is to get your invoices paid. “Don’t be afraid of picking up the phone,” Jennifer Raines, director at FinanceHeads, says. “I came across a company recently who still had invoices outstanding from 2009. I encouraged them to call their client and ask for the money, and they were paid straightaway. If you get in the habit of tracking and following up all your invoices, this will drastically help improve cash flow.” But make sure you chase by phone rather than by letter – credit reference agency Graydon estimates that it’s about 80 per cent more effective.

### 7 Lease instead of buying equipment

Your business may need a new IT system and you may well look at your sales records and decide that you have the spare cash to spend on a new server for your office. But think twice before parting with the pennies, as they may be needed further down the line. Consider leasing instead of buying equipment outright – there may be a trough coming your way and you don’t want to get caught out. “My mum always used to say ‘never buy what you can lease, lease what you can rent, rent what you can borrow, or borrow what you can find in a skip,’” says Alex Pratt, founder of £5m-turnover Serious Brands.

### 8 Hire a great credit controller

Your credit controller’s main role is to ensure your invoices get paid, and can play a huge role in boosting your cash flow. “A good credit controller is invaluable for making sure that you get paid on time by all your customers,” says Dave Breith, founder and CEO of £20m-turnover O-bit Telecom. “They need to be able to speak to a customer’s credit controller in much the same way a salesperson would. A persuasive but friendly manner will go a long way and, most of the time, customers will pay when asked nicely.”

### 9 “If you fail to plan, plan to fail”

“An unplanned invoice can lead to you going under,” says Limited Space’s Sida. “It doesn’t

matter how good you’re looking at the moment, if you haven’t got the cash to pay your bills, you won’t survive.” She’s right: long gone are the days of guaranteed back-ups – you can’t rely on your bank to bail you out. Whether you use a pen and paper, Excel, accounting tools, or whatever, get planning and forecast your cash flow for the short and medium term, updating your forecasts regularly.

### 10 Offer direct debits

Offering a direct debit (DD) is probably one of the quickest ways to boost your cash flow, and is helpful to everyone. With a DD, you’ll get your cash more quickly, your customers don’t have to worry about the administrative burden, and everyone is better protected from fraud. Plus, it’ll help your financial planning, as you know exactly when each customer’s DD will hit your account.

### 11 Clear that excess stock

Many businesses hold too much stock or, to put it another way, have too much money tied-up in stock. Clear out old and slow-moving stock if the cash generated could be put to better use. “Don’t get unnecessarily tied into purchasing agreements so, if your cash flow worsens, you have the option of cutting projected purchases,” says Graeme Bursack of accountancy firm Goodman Jones.

### 12 Try e-invoicing

If you’ve tried it, chances are, you’ll swear by it. E-invoicing can help you cut costs,

improve efficiency, and stay on top of your cash flow, according to Gareth Horton of data-provider Market Location. "Paper invoicing is increasingly inefficient, expensive and error prone - it's affecting cash flow for finance departments across Britain," he says. Instead, as it's online, e-invoicing gets you paid quicker and cuts down on errors. Check out companies such as Basware, Kofax or OB10 for SME software packages.

### 13 **Cut out the excess VAT - scheme 1**

VAT is one of the biggest regular outflows of most businesses, so it's worth looking at how VAT-efficient you are, says Goodman Jones. Under standard VAT accounting, you must complete four VAT returns a year - any VAT due is payable quarterly. But if you've got an estimated VAT-taxable turnover of less than £1.35m, consider signing up to HMRC's Annual Accounting Scheme for VAT. This allows you to spread VAT payments evenly over nine months, with a balancing payment or refund at the end of the year, helping you to avoid large cash flow fluctuations.

### 14 **Cut out the excess VAT - scheme 2**

You could also consider HMRC's Cash Accounting Scheme for VAT. Normally, you pay VAT on your sales regardless of whether or not your customer has paid you. But using cash accounting, you don't need to pay VAT until your customer has paid you. So if your customer never pays you, you never have to pay the VAT on that bad debt. This can significantly help your cash flow, especially if you've got slow-paying customers. Again, this is only for businesses whose estimated VAT-

taxable turnover is less than £1.35m, but it's worth looking into.

### 15 **Check your product mix**

Are some of your products just sitting around for months, waiting to be bought? If yes, you might not be offering the right mix of products. Instead of focusing on products that create the highest margins, consider faster-moving lines, which don't tie-up your cash flow for very long.

### 16 **Information is key**

Know what's happening. You'd think this is a no-brainer, but you'd be shocked at how many bosses don't actually know what is going on in their accounts. "Make sure you know where every penny in your business is coming from or going to - or, more importantly, ensure that you have the ability to find out," says Sarah Shillingford, entrepreneurial business partner at Deloitte. "A good financial system will pay for itself in no time."

### 17 **Credit check clients**

Remember that when you give your clients 30 days to pay, you're essentially offering them a 30-day loan. You wouldn't think twice about being asked to submit to a credit check if you were applying for a loan, so why should it be any different for your clients? Credit checking can help you identify and filter out clients that are likely to have problems paying their invoices - and will potentially hurt your cash flow. The Forum for Private Business offers its members free access to business monitoring services. Graydon,

Experian and Dun & Bradstreet all offer SME packages, too.

### 18 **Use alternative finance tools**

Factoring and invoice financing can be strong tools to smooth over unexpected dips in cash flow. You'll receive up to 90 per cent of the value of invoices you raise within 24 hours of raising them. The factoring partner will then chase the invoice when it becomes due, and pay you the remaining value, less a fee. Interestingly, factoring is also increasingly being used by businesses that want to seize an opportunity for expansion quickly when they're unable to secure credit from a bank.

### 19 **Dust off your crystal ball**

Forecasting is an integral part of managing your company's finances, and performs a vital role when it comes to a healthy cash flow. "Every business will experience peaks and troughs," says FinanceHeads' Raines. "Whether they're related to VAT payments, corporation tax or other lump sums, the key is to work out where the troughs are and how severe they're likely to be. Otherwise





you could find yourself lacking cash when you really need it."

## 20 Offer credit card payment

Cheques can "get lost" in the post and take a long time to clear. So offer credit card payments to your customers, says Richard Alberg, founder and chief executive of MyWorkSearch. "Many businesspeople have company cards and a proportion will settle this way, resulting in swift payment to you."

## 21 Does it bring in money?

Never stop looking at ways to cut costs in your business. You'll be surprised how much excess fat the business builds up, feeding off your cash flow, says Mandy Brooks, founder and MD of Chazbrooks Communications. "Go around the business and ask whether it saves money or brings in income. If not, you don't need it!"

## 22 Put clients on long-term retainers

Try getting clients to sign up to long-term retainers of between three and five years. The client gets a long-term fixed fee (and no nasty surprises added to their bill), and you get security and can forecast your income for years to come. "This is particularly important for impressing banks and securing funding from investors," says Simon Hancock, FD of data storage firm ControlCircle.

## 23 Renegotiate with your suppliers

Make sure you regularly review all of your prices with your suppliers, says O-bit Telecom's Breith. "A lot of businesses don't do this, but it can be a great way to

reduce overheads and free up cash, especially if you haven't asked your supplier to review its prices in a while. It's also worth asking for extended credit terms – if you're a loyal customer and have always paid your invoices on time, then your supplier should oblige if they want to keep your business."

## 24 Offer a discount...

One of the most common reasons for cash flow problems is late payment. It's also the main cause for insolvency among SMEs. But Kim Farrell, corporate finance partner at CBHC Chartered Accountants, says you shouldn't get angry with debtors – they're more likely to pay people they like. "Instead, offer an incentive such as an early settlement discount. It has to be meaningful to make a difference, though. One per cent isn't enough." One way of covering the cost of the discount, says Farrell, is to factor it into your prices from the start, so you receive the benefits and customers "feel they're getting a good deal".

## 25 ...or launch a competition

Reward prompt payment by turning it into a competition. For example, the names of punctual payers could

“ Rather than getting **angry** with debtors, offer them an incentive such as an **early settlement discount** ”

be put in a draw each month and the winner could be rewarded with dinner for two. "It may sound far-fetched, but we tried it ourselves with excellent results," says CBHC Chartered Accountants's Farrell. "For an investment of around £1,000 per year, we can advertise a feel-good incentive to all our clients and strengthen our relationships while improving cash flow. It's a win-win."

## 26 Split your invoices

If a customer is querying part of an invoice and refusing to pay anything until their issue is answered, ask them to pay the part of the invoice that isn't in dispute. Corporate turnaround specialist Anthony Holmes explains: "If your clients refuse on the basis that they can't authorise the invoice for payment in part, then credit the original invoice and re-submit two substitute invoices – one for the amount not in dispute, and the second for the queried sum. You can then ask your customer to pay the undisputed balance immediately."

## 27 Reconcile, reconcile, reconcile

Check and cross-check. As well as monitoring and tracking all your expenditure and profit forecasts on a regular basis, make sure you're using the right numbers. "A finance process is vital to control, monitor and allocate expenditure and income. Make sure the whole team is fully up to speed and on board with this process and understands, in detail, the reasons behind it. But always cross-check to ensure all your figures are correct," says The Lounge Group's FD and queen of cash flow, Sara Gil. "There's nothing worse than realising a formula is incorrect!"