

Cash flow - IT'S YOUR MONEY

No matter what business you are in or what stage of the business life cycle your business is currently working through, the main issue that plagues small businesses is cash flow, cash flow and cash flow, writes John Corias.

Keeping a regular flow of income into the business bank accounts has so many benefits and getting it wrong is a disaster waiting to happen. So many surveys and studies are constantly being released on business failures, all of them listing cash flow dramas as one of the top contributors to small business closures.

Many business owners do see cash flow as an important issue but only act on the matter when the cash starts to dry up. This aspect of running a small business must be set as the highest priority in good times as well as bad times. In fact, setting a strong policy surrounding cash flow and collections when business is running smoothly is the best time to act. It allows you to think and act freely without the added stresses of knowing that getting that invoice paid is critical to your small business survival.

So before we even get to the panic stage of calling in debtors just to stay afloat let's take a look at what can be done.

1. When and how to invoice clients

If you are involved in a business that invoices customers after a job is completed or part way through, then having a strict policy on the timing of invoicing is critical. Any delays in getting the invoice to the customers will directly translate into delays in getting paid for the job. If you are in the habit of waiting until the month's end to invoice all your clients for that month then you may potentially be extending your payment terms by a whole extra month, simply by not getting your invoice to the customer on time.



John Corias is a senior partner at m.a.s accountants, the original accounting office for small business.

Perhaps you are involved in a business that requires purchasing equipment upfront for customers and then installing that equipment as part of the work. If you are in this situation then you must be invoicing your customers up front for at least a percentage of the final invoice. By doing so, cash will flow in allowing you to pay your suppliers on time and keep them happy. So the key is to invoice as soon as the job is complete or perhaps even part way through a job depending on your circumstances. If you aren't currently doing this then find a way to make it happen.

2. Payment terms and methods of payment

Make it easy for your clients to pay you. This may sound obvious but often we see small businesses with overly complicated invoicing templates or invoices that are missing critical information on how to pay the invoice or the basic payment terms. There is no excuse for not having your bank account details on an invoice or remittance slip to allow clients to pay direct into your account. If you are able to take credit card payments make sure this is clearly stated on the invoice.

Make sure you keep abreast of the payment methods most commonly used in your industry and then do whatever it takes to give your customers this option.

Before sending out any invoice, contact your customer directly and establish who to address the invoice to. Don't send the invoice to a busy CEO if it should be going to his or her PA or an accounts receivable clerk. Don't be afraid to ask.

3. Follow up communications

If you have already invoiced the client in a timely manner and ensured that the invoice was then forwarded to the person most likely to be responsible for payment of the invoice then you're on the right track. Before you allow an invoice to get past your normal trading terms, say 30 days as a common example, give the customer a friendly non-threatening follow-up phone call. Touching base with the customer allows you to make sure the invoice has been received and is in the right hands to ensure payment is made to you and on time.

It often allows the customer an opportunity to provide you with valuable feedback on the work invoiced.

“...Touching base with the customer allows you to make sure the invoice has been received...”

4. Accounting software

This may not be the most riveting aspect of your business but keeping in regular contact with your accountant can often open up opportunities for discussions surrounding the issue of cash flow. The rapid developments in technology are opening up more and more avenues for businesses to automate processes, such as emailing clients on the due date of invoices without you even having to think about it. If your accounting methods and packages don't make it easy to communicate with customers that have outstanding invoices then perhaps it's time for a change, or at least a serious review of how you go about collecting your debtors.

“...Make it easy for your clients to pay you...”

5. Legal options

If you have long-term debtors that are severely in arrears, then it's time to take firmer action. This can involve charging interest on outstanding amounts

and restricting further business until old accounts are brought up to date. Often these steps are enough but sometimes not. Again, the first step should always be to contact the customer directly to establish the reasons for delays in payment. You should always endeavor to get a commitment from your customer to pay the debt, even if it's in periodic installments. The final resort is, of course, legal action. This may become necessary with belligerent customers who may be difficult to contact or tie down to a commitment to pay. It can be expensive to engage your legal representation but the opportunity cost of not getting paid must be weighed up against the legal costs.

“...Keeping a regular flow of money through your business is vital for success...”

Keeping a regular flow of money through your business is vital for success, no less important than the blood flowing through your body. Taking the time to properly and comprehensively document policies and procedures surrounding invoicing customers and subsequent collections will save you and your business so many headaches if followed well. Make sure you and your team members all have an understanding of the importance of their role in the process of keeping the business blood pressure at an even level at all times. TGR

