

Tips to keep your cash flow steady

By Tom Addyman on Monday, January 25, 2010

Trade, income, expenditure, credit – almost all monetary matters have enjoyed viscous references (not 'vicious', 'viscous'). We talk of 'cash flow' and 'liquid assets', of 'price surges' and even 'trickle down economics'. But generally speaking, (particularly at the moment) the greater liquidity, the happier the news, and the slower the flow, the more likely the problem. More tellingly, the smaller the business, the more vital the current.

Thankfully, a company's own actions can make a very real difference; contrary to much public opinion, there are certain steps you can take to improve your cash flow. They require a certain amount of discipline, a certain amount of resilience and a reasonable amount of effort, but you don't have to work for Nasa to implement them (unless you're a Nasa supplier).

Let's have a 10 point checklist that should cover all the main points, some of which you may have already put into place and others which you may not have considered.

First – prevention. Establish whether a new supplier has a good credit rating. There are several online firms who can help with international credit checks, and once you've hired, try to align their payment with yours, so there isn't an unnecessary gap between what's coming in and what's going out. There are plenty of businesses who will pay for services up front, but ask their own customers to settle within 60 days. Before you know it, there are two months without cash.

Next, join Liquidity Anonymous. "The first step is acknowledging you have a problem..." If you are owed payments, follow them up! There are thousands of invoices lying on thousands of desks gathering dust. After a reasonable (and often extended) time allowance, you have a right (and an obligation to your business) to chase your debtors. Having said that, try to remember that diplomacy is a longer term ally than brute force. When the garden gets rosier, your reputation as a fair and decent company may pay dividends.

And while we're on the subject, hard cash can often be tied up in your outstanding invoices. Invoice financing means that you can borrow against what you are owed to provide a vital stopgap. If the pressure you are applying isn't having the right results, invoice financing can buy you some seriously needed time.

Another simple step for survival/growth/expansion is communication. When times are hard, for instance, there are plenty of businesses in the same boat. Your suppliers and your customers will understand that there is a very real reason for the occasional hiccup and that business will be resumed as soon as possible. They may see that renegotiating certain terms is going to be beneficial all round. So get talking and see how timing, payment plans and conditions can help smooth the waters. Generally speaking, businesses would rather have solutions than excuses.

Next: A move which could, technically be seen as a bit of a cheat to the do-it-yourself aspect of today's column – seek professional advice. Before you start booing, there is plenty of DIY you can do to

help the help, if you see what I mean. Firstly, make sure that you and your business are completely transparent. There is no point in going to an auditor/accountant to get your house in order if you don't tell him about the non-executive directors locked under the stairs. If you are honest and open, there is a good chance that your advisors will be able to put you on a more even keel.

And to be able to do that... (point 6, if you're keeping track) you will need to reduce costs, make processes more efficient, trim staff and maybe sell off the more redundant assets. In an ideal world, we should already run our businesses at optimum efficiency, but when things are going well, there seems little point in fixing anything that doesn't appear to be broken. Why try to get an extra 15 km per hour out of a Formula One car that's already winning every race? Again, prevention is better than cure, so try not to be too decadent when you're on a roll.

Don't forget to prioritise your bills. Never mind the philosophy of first come, first served, if you don't keep the utilities firms sweet, for example, the chances are you won't be able to make other payments. Water and electricity are fairly important to running any business. Again, communication is key. "Can you give me more time to pay?" "Sure, not a problem." See? Easy as that. Well, you understand the principle.

Something that should always be at the forefront of your mind is forecasting your cash flow. You should be able to look at your working capital cycle and see when you will have less flow and when you will have more. This could be seasonal (holiday periods), regular demand peaks (TV viewing hours) and new products (PS3). Your particular business in your particular sector should be able to see when these ebbs and flows will happen.

It is, or at least should be, part of your strategy. Accordingly, make sure that you not only know what's coming, but make sufficient preparations that you are in a perfect position to take advantage of it.

To make your cash flow odds considerably better, it is always worth investing in a wide spread of clients across a wide range of sectors. Rely too heavily on a select few and the knock-on effects of the bad times are swift and merciless. They go under, you go under. There is no one left to turn to if your only sources of income are unable to keep trading.

Even if times are not quite that dramatic, (and 'swift and merciless' is quite dramatic) it could be that your niche market needs to reassess and release some of its own cash – and it could be that one of its savings is you. There are a lot of good reasons for diversifying, and this is one of the best.

Finally, when all doors have been closed and all avenues exhausted, the last clutch at straws is to unload your assets. Selling machinery seems a drastic measure, but possibly no more so than inviting partners to help fund the business. Necessity may be the mother of invention, but perhaps urgency is the mother of investment.

Don't go under (vicious), stay afloat (viscous).

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