How to Improve Your Cash Flow

The overall purpose of managing your cash flow is to make sure that you have enough cash to pay your business bills and there is profit left over for you as the business owner. You can also manage cash flow in your business by creating a Cash Flow Statement (current position) and Cash Flow Projection (future forecast).

There are many ways you can improve your cash flow, even simply by changing one or two of the examples below on a day to day basis in your business may have a massive impact.

EXAMPLES OF WAYS TO...

GET YOUR PRICE RIGHT:
→ Research the type of customers you are targeting
→ Look at the positioning of your products in the market
→ Plan how you will promote your products
→ Calculate the costs associated with their products including both fixed and variable costs
→ Research your competitors and their pricing decisions

IMPROVE YOUR COST OF GOODS SOLD:
→ Negotiate with your suppliers for a better price if you buy in bulk and turn over stock quickly
→ Negotiate with your suppliers for a discount if you pay early
→ Shop around with other suppliers to ensure you are getting the best value (this is not necessarily the best price)
→ Purchase a new equipment or implement new processes to produce the goods more efficiently

IMPROVE YOUR FIXED EXPENSES / OVERHEADS
→ Compare expenses against your budget
→ Compare expenses against the previous year or period
→ Train your employees to be thinking about how expenses can be reduced
→ Reward them for ideas to reduce expenses. Rewards don’t have to always be monetary. Be creative with the reward system
→ Require quotes from various suppliers
WAYS TO MANAGE YOUR DEBTORS:
→ Credit checks for all new customers
→ Receiving a deposit on signing of a contract
→ Discounts offered for early payment
→ Make it as easy to pay as possible. Offer to take credit card details to move the risk to the credit card company
→ Send out invoices immediately
→ Bank regularly
→ Regularly review aged receivables report and consistently follow a step-by-step plan to follow up overdue accounts

WAYS TO MANAGE YOUR CREDITORS AND PURCHASING:
→ A purchase order system that has two signatures for accountability
→ A procedure for receiving goods
→ A procedure for payment of goods that requires the purchase order, delivery docket, invoice and statement. The level of paperwork required may vary depending on the size of your business
→ Always pay your creditors on the day the invoice is to. Do not pay early or late!

WHY IS CASH FLOW IMPORTANT?
A healthy cash flow is an essential part of any successful business. No matter how sophisticated your processes, or how wonderful your products may be, if your business runs out of cash, it will cease to exist. More importantly, profit to you as a business owner is the reward for a well-run business and gives you choice and freedom in the future.