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CASHFLOW FOR SME'S

I often use the expression "Cash Flow is King" when I talk to my clients. It is a very true expression that bears thinking about.

If the "cash flow" is not consistent in your business, then it is a recipe for disaster.

Typically, a business "cash flow" or "working capital cycle" is as follows: -

CASH → STOCK → SALES → DEBTORS → CASH

If you ignore any one of those areas, you get a "puncture" and the "cycle" grinds to a halt!!

No cash = No Stock
No stock = No Sales
No Sales = No Debtors
No debtors collected = No Cash

and so on and so on and so on!!!

To say today's environment is a tough one for SME's is an understatement!!! There are however some strategies that you can employ to endeavour to maintain a consistent and reliable cash flow. These include: -

Credit Checks

Before you enter into agreeing to a credit limit/account for a new customer, get a credit check on that proposed customer.

If that is satisfactory, then get the customer to agree to your "Terms of Trade" in writing.

If you don't have written terms of trade for your business you need to get them prepared by a reputable advisor as soon as possible. Always display your terms of trade on each and every invoice you issue. (e.g. All my invoices clearly state: - "Payment Terms: - Strictly Within Seven Days Of Invoice Date")

Forecasting

It is imperative that your business has a cash flow forecast that you can use as a barometer as to whether you are meeting your targets. As well, it provides a guide as to where you may have "cash flow hot spots" where you may need some financial assistance.

A well prepared and explainable forecast is a critical aspect that you will need to provide should you be seeking any financial assistance from a financier for your business.

Funding Sources

Banks have been traditionally the main source of funding for SME's. That is no longer the case and there are a number of other institutions that provide financial assistance. These include: - credit unions and factoring companies.

Essentially, factoring companies take charge of your debtor collections and charge you a fee for so doing. They provide you with a sizeable portion of your outstanding debtors within a short period of time (normally around 80% within 48 hours or so) and then they do the collection of the debtor on your behalf at their cost. They then deduct from the invoice their costs of collection and pay you the residual. You do need to examine it carefully though as the cost of factoring can be quite high.

Also examine your funding needs for plant and equipment. There are other options here too. They include leasing and chattel mortgages.

Speak to a well experienced finance broker as they generally have a greater variety of lenders available to whom they can refer you to and who can tailor your financial needs.

If you decide to follow the "factoring" route, you must speak to your accountant or financial adviser or do some research of your own. You may care to start at Institute for Debtor & Invoice Finance Association (see http://difa.asn.au/ which will give you some entry level information.

It is always appropriate to discuss your circumstances with a number of factoring companies to ensure you get the best fit for your business. Generally, factoring companies tend to prefer businesses than have a specific product or service where there is clear evidence that same has been provided. This could be via a signed delivery note or a timesheet or similar methodology.

The imperative here is that your record keeping and bookkeeping disciplines are up to scratch and that you have an up to date list of all invoices issued. Lack of discipline in this area can be disastrous.