

THE FINANCE PEOPLE'S GUIDE TO CASH FLOW



WHAT'S IN THE GUIDE?

- What is cash flow?
- A few facts and figures
- How to avoid cash flow pitfalls
- Simple tips to improve your cash flow
- How to create a cash flow forecast
- Managing your cash flow in the future

Talk to The Finance People today:

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CASH: THE LIFEBLOOD OF EVERY BUSINESS

From the moment a new business launches, cash flow is a #1 priority.

And whether you're a small professional services team, or a national retail giant with 1,000 outlets across the country - if your business is going to survive, it needs cold, hard cash to pay the bills.

So why do even profitable businesses seem to struggle with negative cash flow?

Well, there are all sorts of reasons for that. From late customer payments to overstocking, lots of things can make it harder for businesses to meet costs like rental payments, salaries, and supplier invoices.

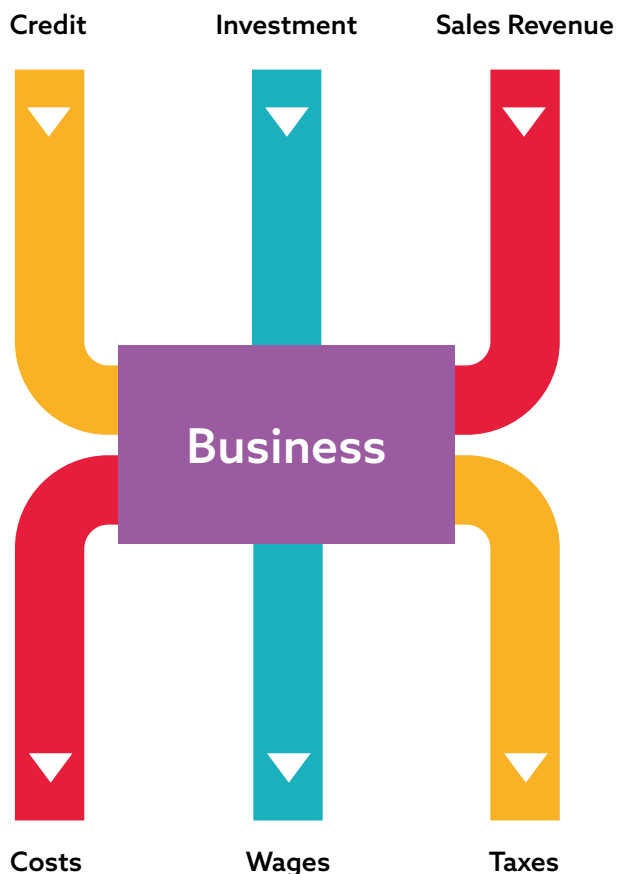
And no matter how big your business is, nobody is immune from negative numbers.

However, with good financial advice and strong business practices in place, maintaining healthy cash flow could be simpler than you think.

That's why The Finance People have created this guide. To help you secure good cash flow management, both now and into the future.

Anita Tweats
CEO of The Finance People

What is cash flow?



About the author

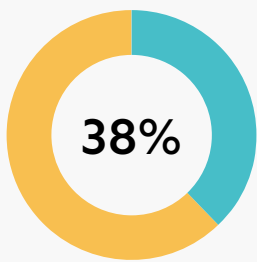
Anita Tweats MBA is the CEO and founder of The Finance People, which offers flexible, expert financial support to businesses of all sizes.

With solid experience working in accountancy practices, in industry, and as a lecturer, Anita offers expert knowledge and straight-talking advice on all things finance.

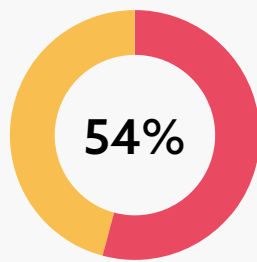


THE STATE OF BUSINESS CASH FLOW

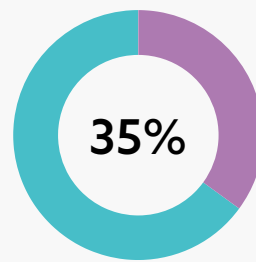
We all know that not being able to make payments is bad for business. But are you aware of just how widespread the problem is?



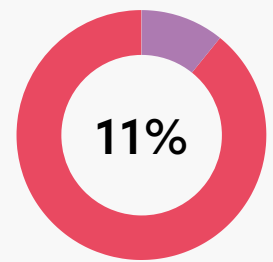
of small business owners have been left **unable to pay debt** due to cash flow problems¹



of SMEs have experienced **overdue payments**²



of SME owners waiting on late payments have to **rely on overdrafts** to get by each month²



of SMEs struggling with overdue invoices are forced to **employ someone to chase up payments**²

2.2
MILLION

people in the UK have **not been paid on time** due to employer cash flow issues¹

1 IN **7**

small business owners have been left **unable to pay employees** because of cash flow issues¹

£26
THOUSAND

is the average amount that small business owners lose out on, when they have to **turn down work** due to insufficient cash flow¹

£4.4
BILLION

The amount UK SMEs **spend chasing late payments** every year²

"UK SMEs spend £4.4 bn chasing late payments every year."

– Bacs Payment Schemes Ltd

¹ 'The State of Small Business Cash Flow', Intuit Quickbooks, April 2020

² 'UK SMEs Face Debt Burden of £23.4billion', Bacs Payment Schemes Limited, 2019

7 COMMON CASH FLOW PITFALLS (AND HOW TO AVOID THEM)



Late payments

Late payments are one of the top causes of cash flow problems for businesses.

Chasing is costly, so **think about ways of making prompt payment easier** for your customers, like offering mobile and digital payments, and options like cash on delivery.

For businesses that require face to face payments, services like Square allow you to take card payments anywhere, via a portable, battery-powered card reader.

Online, the world is your oyster. Worldpay processes over 40% of all card transactions in the UK, but options like Paypal, Shopify, Stripe, and Klarna are all great too.

Take your pick.



Late invoicing

Sometimes admin is the last thing you want to think about in a busy business. But speeding things up at your end can pay dividends for your cash flow.

One easy way to do this is through invoicing software like FreshBooks, Intuit Quickbooks, and Zoho Invoice. The price of these services varies, but when you can use a mobile app to pull together an invoice on the go, some might say they're invaluable.

If you're really struggling to get a client to pay up, there are also debt collection agencies. This isn't as scary as it sounds, and many simply send letters and make calls on your behalf.

But it's expensive, and do tread carefully – in regaining your cash, you could be saying goodbye to future business.



Overinvestment

Even if you've had a recent injection of funds, try not to spend too much on non-essentials like fancy equipment and office furniture.

Acquiring fixed assets upfront might save you from the drawn out costs of leasing, but it will also drain your cash very quickly.

Instead, **keep a list** of 'Must Haves' and 'Nice to Haves' and focus on the former.

Consider **hire purchase** agreements or buying second hand. Or, even better, plan ahead.



Overstocking

Sometimes, it can be tempting to stock up on product and raw materials 'just in case'. But when you've got a large inventory, the costs of storing it can mount up quickly.

You could try things like more regular stock takes, or only reordering when inventory reaches a minimum level. Alternatively, plan ahead by **matching up your inventory management to your projected sales**.

As always, investing your time in good financial planning could save you money in the long run.

7 COMMON CASH FLOW PITFALLS (AND HOW TO AVOID THEM)

5 Unexpected expenses

In business, you never know what's around the corner: from flooded warehouses to broken machinery, to a sickness bug wiping out half your staff for a week.

However, while many things can be insured, unexpected expenses can still wipe out your business bank account while you're waiting for your payout.

So what's the solution? Well, in our experience, it's a three-pronged approach: **good risk management**, strong **financial planning**, and having the right **reserves** in place to cover any nasty surprises.

Or, in other words: expecting the unexpected.

6 Expensive overheads

If you wanted to cut costs in your household budget, the first thing you'd look at would be rent, utilities, and phone / internet bills.

The same applies to your business overheads, so make sure you keep an eye on them and switch providers regularly if needed.

Another option is to avoid signing up for expensive overheads in the first place.

With strong cash **flow forecasting** in place, you'd have a better idea of your business's budget, and be able to make savvier choices.

7 And finally, poor financial planning

Many of the cash flow pitfalls on this list could have been prevented with better financial planning.

That's why every business owner should have a strong grasp of the cash going in and out of their business, before they make any decisions involving money.

For advice on how to do that, dive into the next couple of pages...

"As always, investing your time in good financial planning could save you money in the long run."

6 SIMPLE TIPS TO IMPROVE CASH FLOW

1 Assess your finances

With the help of an expert, look through your historic cash flow statements to get a full picture of the health of your finances.

You can then use these to generate an accurate **cash flow forecast** and **budget**.

2 Reduce your expenses

One obvious reason for negative cash flow could be that you're simply spending too much money.

So take a closer look at your **operational costs** and **overheads**, shop around, and see if there's anything you can cut back on.

4 Update your payment terms

Rather than wasting time and money chasing up late payments, make sure your accepted payment methods, due dates, and late fees are abundantly clear from the get go.

You could also try altering your policies to be less forgiving, too.

3 Sell more stuff

Again, it's an obvious one – but one of the best ways to get more cash into your business is to make more money!

Make your products and services more attractive with discounts and bundles.

Plus, consider investing in marketing and advertising. With social media, email, and other forms of digital marketing readily available, it could be much cheaper than you think.

5 Think about getting a loan

We saw earlier that 35% of SME owners rely on overdrafts to get by each month. But this can be an expensive and stressful way of keeping cash flowing into your business.

Securing a business loan, or re-financing an existing one, could be a much better option, especially if you can get **favourable rates** and more **manageable repayments** in the process.

6 Consider outsourcing

Did you know that pretty much all of the above tips can be outsourced to The Finance People?

From **Cash Flow Management** and **Raising Finance** to **Financial Planning** and **Accounting**.

We can deal with a whole range of services on your behalf, leaving you free to focus on growing your business.

Learn more about improving cash flow at
thefinancepeopleuk.com

HOW TO CREATE A CASH FLOW FORECAST

A strong, accurate cash flow forecast should be in your toolbox before you make any big business decisions.

There are a few ways to do this:

- Use the instructions below to create a spreadsheet yourself
- Make the most of free online software, such as PWC's Cashflow Coach (although this only lets you plan ahead for up to six weeks)
- Consult an expert, who will help you factor in all the potential variables, and create a detailed plan for the next 12 months

"Whether you're thinking about expanding your product range, your premises, or your personnel, it's essential to know if you can afford it first."

1 Define duration

- From the next week to the next 12 months, decide how far ahead you want your plan to go
- Separate your spreadsheet into columns representing each week/month

3 Add outgoings

- For each week or month, list everything you'll be spending
- Outgoings include things like tax, rent, salaries, assets, loan repayments, raw materials, and marketing spend
- Put your predicted figures into your plan (you can use last year's numbers to help)
- Add up the total in each column to get your net outgoings for the week/month

2 Add income

- Separate your spreadsheet into rows for each type of income
- Remember income includes sales, but also grants, loans, help from investors etc
- Put your predicted figures into your plan (you can use last year's numbers to help)
- Add up the total in each column to get your net income for the week/month

4 Tot it up to get your cash flow

- For each week or month column, subtract your net outgoings from your net income
- The resulting figure is your projected cash flow
- If you have more negative weeks than positive, it's time to cut back on spending
- If you have more positive weeks than negative, it could be time to invest!

MANAGING YOUR CASH FLOW IN THE FUTURE

Now that you've got some useful cash flow management tips in your back pocket, it's time to start thinking about the future.

Have you thought about planning ahead for any cash flow fluctuations?
Have you started putting reserves aside for unexpected events?
And how can you ensure that cash flow never becomes negative again?

"It's all about good **financial planning** and **forecasting**," said Anita Tweats, CEO of the finance people.

"When you're busy running a business, it can be hard to set the time aside to crunch the numbers. But by **analysing** your operating cash flows, **investing** surplus cash wisely, and **planning** for the future with the help of a well-thought-out cash flow forecast, you can set yourself up for a strong, successful future.

"Or of course, you could ask our experts to do it for you!"

**Talk to The Finance People today.
Supercharge your business for tomorrow.**

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