5 Ways To Avoid Cash Flow Problems In Your Business

ActionCOACH
business coaching

The old maxim "revenue is vanity, cash is reality" is easy to forget in the whirlwind of entrepreneurial life – especially when things are going well. Unfortunately running out of cash is how hundreds of profitable businesses die every year.

In this guide I've collected 5 of the best strategies for improving your cash flow position. For each I've stated the strategy, explained why it's important and then provided actionable steps for implementing.

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1. Grade your customers and ditch the D-graders

Not all customers are created equal. Grade your customers A, B, C or D and then get rid of all the D-graders.

Why?

- You do have a choice about who you trade with.
- We've seen many business suffer by choosing to do business with high revenue D Grades who were detrimental to cash flow because they never paid on time.
- Don't work with just *any old customer*. Reluctantly accepting unfavourable credit terms in return for winning their business is rarely a good idea.
- I coach business owners to overcome fear by understanding that the proportion of the market that they're trying to capture is usually very small. We coach them to calculate the percentage of their market they need as customers to hit their 5 year revenue targets, and it's almost always less than 2%... in other words, you don't have to work with everyone!
- This new belief system empowers business owners to have the courage to stand up to and better negotiate more favourable terms with their customers – or choose to walk away if necessary.

How?

- Make sure you are clear about who your ideal A grade client is. That definition would include a statement about budget and payment terms.
- Actively target A grade clients with your marketing – this forces you to make your marketing far more targeted and to better understand your target market.
- Make sure your sales team understands who they're supposed to be targeting and the importance of winning good quality leads.
- Sack your D grade customers i.e. stop trading with them. The best way to enforce this is simply to put up your prices.

2. Build and regularly review your cash flow forecast

Your cash flow forecast system should be built to a professional standard and should be reviewed regularly so that potential cash flow problems don't fly under the radar.

Why?

- It allows you to spot potential cash shortages before they happen, allowing you to plan for those shortfalls in advance, thereby avoiding the stress and panic of cash suddenly running out.
- The mistake of not forecasting possible shortfalls catches too many businesses out – even long established multi-million pound companies!
- It's truly tragic that these disastrous cash situations could have been avoided with a bit of forward planning.

How?

- Do it yourself or get help from your bookkeeper or accountant.
- It may be a daunting exercise at first, but once the system is created it can be updated every month or quarter with minimum time and effort.
- Review regularly with your Board, Management Team or Financial Director and ask them to help you achieve your stated cash flow target.

3. Systemise your billing process or outsource it completely

Your billing process is the perfect example of an area of your business that is ripe for systemisation. Done properly this results in better performance, cost savings and better scalability.

Why?

- Low value tasks like invoicing, reporting and credit control eat up valuable time. Senior team members should not be wasting their time here.
- It's relatively easy and cost effective to implement.
- Potential buyers or investors seek companies with ironclad control of these processes. Your business won't be attractive to them without these kinds of systems in place.

How?

- Automate as much of your billing process as possible.
- Break down the process into a clear step-by-step manual that anybody could follow.
- Consider completely outsourcing to an external contractor. Business owners are often surprised by how little it costs and how much time it saves.

4. Consider paying to get your cash early

It’s common practise for companies to give up a small amount of their margin in order to free up cash early. Be open to this idea as it often makes good financial sense.

Why?

- Several of our clients have freed up hundreds of thousands of pounds of cash this way. They would have limited or even zero cash flow without invoice factoring.
- You sacrifice margin but it’s a great solution for freeing up cash.

How?

Invoice factoring

- You sell your invoices to an invoice finance provider. They pay you immediately and collect the invoice themselves later (whilst taking a percentage fee).
- Make sure you vet your providers properly and don’t use anyone who is likely to treat your customers unfairly.

Incentivise early payment

- Offer a small discount in return for early or upfront payment.
- Very effective where you have long projects with consequently long payment cycles.

5. Realise that your customer can't always be your top priority

Sometimes staying afloat is more important than going the extra mile for every single customer. Over servicing your customers and running projects over schedule means that you're sacrificing your margins.

Why?

- Many businesses pride themselves on their customer service standards and do a wonderful job at it.
- However sometimes this is achieved only due to over servicing customers.
- It's very common in service industries, especially for creatives, who often go out of their way to prove their creative flair or design expertise, but with no eye on the clock.

How?

- In service companies the biggest overhead by far is wages so make sure that you track the time each employee spends on what.
- I've seen several businesses exceed budgeted time allocations by 50% or more because they weren't tracking the time they spent on each project!
- Calculate the impact that over servicing your customers has on your net profit margin. As a crude example, imagine a £1M turnover business, with a £500K wage bill, but over servicing by 25% on average. A business that should be investing £400K in wages is actually spending an extra 25% i.e. £100k extra for the same revenue. That's £100K that could have been added to net profit or 25% extra clients that could have been taken on.