

How to take care of your cash flow

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Poor cash flow is one of the main reasons so many small businesses fail. We share how to better manage your money

Executive coach Penny Holburn says cash flow is important because if you have too little money left at the end each month, you will not have enough available to pay staff, buy goods or pay for any business expenses.

“Effectively you are going to go out of business. You won’t have staff because you cannot pay them. You won’t have stock because you cannot afford to buy it, and then you have nothing to sell so you won’t be able to bring in any money,” she says.

Furthermore, when people have cash flow difficulties and get stressed they often make poor business decisions such as taking on business that is risky or borrowing money to get by. “Ethics can be compromised, corners cut and such low prices charged that you cannot make money,” says Holburn.

Ideally, the rule of thumb is that you need to have enough cash available in the business to pay for two or three months of business expenses. Managing your money properly enables you to make the necessary monthly payments such as rent, staff salaries, suppliers and raw materials. It also allows you to negotiate better deals from suppliers, grow your business and be less stressed.

Holburn suggests the following ways to manage your cash flow:

Reduce your monthly business expenses

Don’t spend money unless you absolutely have to. If you have cash flow problems, scan every single one of your business expenses and cut out the unnecessary ones.

Sell more goods and services

For your business to succeed you need to ensure that you are selling enough. Consider different ways of approaching your customers such as face-to-face, online, telephonically or by word-of-mouth to increase sales.

Collect money from customers faster

Lines of credit and allowing customers long periods to make payment for goods and services could wreck your cash flow. If you can, ask for cash on delivery. Obviously, being able to do this will depend on how your industry and type of business works. In general though, the sooner you receive payment for goods and services purchased the better your cash flow.

Collect from your debtors

Follow up diligently with people who owe you money.

Bring in more equity

For example, try bringing in a new shareholder who contributes cash to the business.

Take out a loan

This is not a great way to manage your cash flow – but if it is an emergency it might help.

Reduce inventory

Don't carry large amounts of stock. Inventory ties up money that could be used for other cash payments or purchases.