

How Do I Identify Cashflow Risks To My Business



Keeping a close watch on the following 6 areas of your business will help you to quickly work out where you could be managing your cash flow better, and allow you to keep a tight grip on the financial reins:

1. Budget, Budget, Budget

Allow time each month to work out values for projected 'cash in' and 'cash out', ensuring the cash-in will be enough to cover all expenses. When estimating cash in, be sure to include:

Cash In:

- Sales or billing cycles, and billing terms
- Your rate of non-payers, or bad debts – if you know that X% of clients won't pay on time, you know not to factor this cash into the month's cash-flow forecast.

Similarly, for cash out consider:

- Business overheads, including rent/mortgage payments and utility bills
- Purchasing of new equipment and associated servicing schedules
- Staff salaries, superannuation and company taxes
- Supplier purchases – materials, and subcontractor labour
- Any other day to day running costs.

2. Monitor profit margins

Tracking your profit and loss gives crucial visibility into whether you are charging the right amount for your work, or if current margins or markups on materials and labour need review. Using a job management system like AroFlo allows you to record your materials, expenses and labour directly against jobs, and then easily report on Job Cost -v- Invoices Raised to view how much profit you are making.

3. Order stock as you need it

Investing in a high stock holding ties up big sums of money that could be used elsewhere in your business. If items are not turned over or on-sold in a timely fashion your stock 'asset' can quickly become a stock 'liability'! Order your stock as your jobs call for it, and only keep small amounts of crucial items on hand that you use frequently.

4. Enforce your invoice terms

Every successful business has payment terms in place, and those terms are enforced.

- Choose an appropriate payment term that works for you and stick to it. Set a clear expectation with customers on when your payment must be received and follow through with a strict debt collection process for unpaid invoices.

- Raise part invoices at agreed intervals throughout lengthy jobs to help lessen clients' bill shock and allow you to pay for materials on the job as you go.
- Consider switching from monthly billing to twice monthly, to keep more consistent cash flow.
- Think about offering a small discount to customers who pay early and charging a penalty to those who pay late.

5. Smooth out seasonal demand

Flat out during summertime and quiet in the colder months, or vice versa?

- Consider special offers or discounts during quieter periods, to keep a steady stream of work coming in
- Look at offering a subscription deal – offering for your customers to save money on a package of goods or services, in exchange for cash upfront
- Review staffing arrangements to ensure you have appropriate numbers to cover the work you have. Consider extra staff in the busier months, and less during the quiet months.

6. Always have a Plan B

No matter how well prepared you are, there is always something unexpected that can crop up and wreak havoc on the best-laid plans. Having a line of credit, or some contingency cash stashed away, will ensure that you can keep your business operational during challenging times. Your backup plan should always be organised well in advance of when it may be needed.

7. Find Out Your Breakeven Point

You should know when your business will become profitable, not because it will affect your cash flow — because it won't — but because it gives you an early goal to strive for and a ready-made target for projecting future cash flow. Negative cash flow and negative profits make for a grim combination. Focus your efforts on managing your cash flow with an eye toward reaching that moment when you realize your first profits.

So, gather data about our income and expenses and start doing a breakeven analysis.

8. You Can't Control What You Don't Measure

Finding out the amount of working capital a business needs to operate is the first step. You need to answer questions like:

How much inventory do I need to hold?

How many invoices are overdue?

How much cash is tied up in work in progress?

How long does it take from paying our suppliers for the materials to extracting cash from the customers?

Your bookkeeper, accountant, accounting software and even spreadsheets can help you anticipate inflows and outflows of money over a period of time. It's important to start measuring the key metrics now.