



The Little Black Dress and Cash Flow

Cash Improvement Strategies

more money for shoes

Cash Improvement Strategies

Improve cash inflows (cash coming into the business) by:

- Accurate and timely invoicing i.e. invoice when the work is completed and not at the end of the month
- Understand and negotiate invoice terms with your customers. Reduce your payment terms if possible so customers pay for example in 7 days rather than 14 days
- Have as many payment options as possible for your customers. Make it as easy as possible for customers to pay you. eg. cash, cheque, EFTPOS, direct debit , paypal.
- Develop a collection plan for overdue receivables and stick to it. For example you may email a statement to the outstanding debtor each week for 4 weeks, make a phone call to them at the 4 week mark explaining that the debt is overdue and requesting payment, send a letter of demand at 6 weeks and then refer to a debt collector. If you are uncomfortable with debt collection then think about having your book-keeper do this for you or bring in a third party. If you are a new-start up and strapped for cash, then ask a friend or family member who has a good phone manner but is tougher than you to make these calls.
- Ask for payments (or part-payments) up-front for payments.

Improve cash outflows (cash going out of the business) by:

- Understanding and negotiating invoice terms with your suppliers. Extending the time you have to pay the invoices if possible as well as perhaps a discount for early payment.
- Maximise returns on surplus funds. All this means is make sure you are earning interest on money that you are holding in your bank account
- Control and monitor your business expenses. A budget that you have entered into your accounting program and are monitoring regularly is the best way to do this.
- Understand your cash cycle and how it affects how quickly you will be paid as well as when you need to make payments (see diagram below). Each step that you improve in your cash cycle will mean more money in the bank for you so look at ways you can improve each step. Some of these improvements might include:

- Shortening cycle times. For eg you might find a way to improve how quickly you deliver your service or process your sale
- Eliminating mistakes to avoid returns or re-runs
- Improving efficiencies at each stage of the cycle.



Make/Production cycle if selling goods