

Sales rarely an easy option

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RUNNING a sale or a promotion might seem like an easy way to bring in some extra cash for the business, but it might hide a bigger problem.

Financial management training consultants Birch Consulting Group said businesses sometimes do not pay enough attention to where money was flowing in and out of the business.

“Businesses simply run out of cash and yet many managers and business owners are often too busy to give this important aspect of their business enough attention,” Birch said.

“The two primary areas in which most businesses tie up cash are receivables (the money owed to you by your customers) and inventories or stock.”

The company said money tied up in these areas can be “dead” money as it is not working for the business.

But managing cash properly can help businesses get through lean times.

Birch said knowing how quickly the business was paid and whether payment periods were met was somewhere to start.

“Calculate your receivable days

and compare to your payment terms

and conditions,” Birch said.

“If your receivable days comes to 90 days and your terms say 30 days you will most likely encounter cash flow problems.”

Sending invoices promptly also will help smooth cash flow because the client will receive the invoice while the work done is still fresh in their minds and they are more likely to pay more quickly.

Birch said there were always clients who take advantage of slow invoicing which meant a proper debt collection policy was vital as was the regular review of credit terms.

“If you do not chase, some clients will take advantage. Good customer relationships can play a big part but for the slow payers you may need to be persistent,” it says.

“If your client has cash flow problems they will pay the noisiest first.

“Credit terms are not necessarily set in stone and can be changed . . . but ensure you inform your customers.

“Many of your key customers will have a specific date by which they need to receive your invoice in order to get it processed for payment in that month.”