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Top tips for cash management

From **Generate,** experts in creative and innovative businesses

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Cash is king, as the old saying goes. Having enough cash in your business takes a lot of stress out of running day to day operations and enables you to concentrate on doing the work you love.

But for many, it's a challenge to manage the cash in their business and ensure their finances are managed well. The reason it's challenging is that for many creatives, they've never had to manage cash on the scale of business before. It's not what they trained for. It's not what they like doing.

The good news is there's a series of simple steps you can take to help improve your cash situation. And the impact it can have on your business can be tangible and immediate. Here at Generate, we suggest our clients focus on five elements of their business to help improve their cash flow.

✓ Price setting ✓ Job Tracking ✓ Paying
✓ Getting Paid ✓ Planning

We'll walk through them one by one and provide some useful tips as we go.

1. Price Setting

Efforts to improve your cash flow start well before any cash changes hands. It starts at the beginning of any transaction, with charging enough for your product or service to cover your overheads and produce a good profit margin. The less profit you have in your core product or service, the harder it is to meet your expenses. Service companies in particular need to consider their profit margin when quoting. Under quoting at the start of the process means cash flow problems later.

✓ Undertake a reality check on your prices, by calculating the profit margin you make before and after factoring in expenses. Does it need to change?

✓ Review your last five quotes. How accurately did they estimate the work needed to complete the job? Again, what change is needed in your quoting process?

✓ Set a minimum profit margin on jobs to be incorporated into quoting.

✓ Review your prices annually. Small incremental price increases are easier for customers to bear than sudden lurches.

✓ If you're not charging enough, but are worried about the impact on business, trial a small increase with new customers. Often, they are not as resistant as you may fear!

2. Job Tracking

Over servicing is a common problem for creative industries and other service based businesses. We often feel the perfectionist's urge to keep working on a job long after we should have stopped and invoiced it. Or worse – there's no job tracking in place at all, so we have no way of knowing if we're over servicing or not. This impacts on your cash flow, because every hour spent over servicing is an hour when your profit margin reduces and your overhead expenses pile up. Think of each over servicing hour as a net expense which you have to pay for. Getting on top of this is crucial to running a profitable serviced based business. Try the following out in your business:

✓ Have a robust service agreement in place, which outlines what services you provide and under what terms. Set expectations up front, so there are no surprises.

✓ Explain in your agreement when you expect to issue your invoices: upfront, as progress invoices, or upon completion.

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✓ The agreement should also stipulate that you reserve the right to charge for work requested that is outside of the scope of the original price. It should outline your expectation that if invoices are unpaid you won't be undertaking any further work.

✓ If you're not tracking the progress of jobs (via timesheeting), it's time to start. Look at online systems such as Harvest, WorkFlowMax and so on.

✓ Use the job profitability reports in these systems to identify over servicing.

✓ Set up notifications in these systems to trigger when jobs are reaching 50%, 75% and 90% of budgeted hours.

✓ Ensure your standard contract includes clauses to renegotiate prices with clients if the hours blow out.

✓ Combat the perfectionist's urge to continue to work on a job long after the client's expectations have been met.

3. Paying

It's all too easy to get lost in the myriad of bills which need to be paid in your business every month. So planning is essential and careful scheduling of payments can ensure that you keep the maximum amount of cash in your business at any one time. It also puts you in control and builds confidence that you have the cash to pay your bills when they fall due, without the last minute scramble.

✓ Put together a cash flow budget. This tracks which payments you're making month by month, and also what revenue is coming into your business. This enables you to see which months are going to be financially tight and plan your payments accordingly. See also Planning below.

✓ Look at your regular expenses (insurance, utilities and so on). What's the best way to schedule those costs – monthly, quarterly, annually? Talk to your providers about a billing cycle which fits you (and while you're looking at these expenses, shop around for a better deal).

✓ Look at your regular suppliers. What are their payment terms? Use the maximum time they'll allow.

✓ Do any of your suppliers offer discounts for early payment or for other conditions? Use these where you can.

4. Getting Paid

Everyone wants to get paid faster, but not everyone has the processes and procedures in place to facilitate fast and easy payment. Make sure you have a few of these simple things in place to help that money get into your account.

✓ Send your invoices out promptly after the work is complete.

✓ Include as many payment options as possible so there are no excuses for non-payment.

✓ Make sure the details on your invoices are correct. You don't want to waste time correcting inaccurate invoices.

✓ Send the invoice to the right person – ask upfront who the invoices should be sent to.

✓ Don't send the invoices included with other work or documents or else they might get lost – always send them separately. Send them from a different email address (e.g. accounts@) to ensure don't get confused for anything else.

✓ Consider discounts for early payments and penalties or late payments. State these clearly on your invoices.

✓ Have a rigorous internal regime for chasing payment. Assign that responsibility to someone in your team and get them to call debtors regularly.

✓ Set a target for the amount to collect every month.

✓ Consider using an automatic reminder service such as Debtor Daddy or Chaser.

✓ Calculate and track your 'debtor days' and get that figure as low as you can. The formula is (Trade receivables / Annual sales) x 365 days, and it gives an indication of average number of days required for a company to receive payment from its debtors. The lower the better!

5. Planning

Think of the tips above as the nitty gritty of cash flow management. In the long term though, what will make a difference is tracking the movement of cash through your business and planning to maximise it. This is where your cash flow budget comes into its own. It might look daunting at first, but in fact it's a surprisingly simple document which won't take you long to master. And it will pay off quickly in the form of more dollars in your bank.

✓ You can download our free cash flow template from the resources page of our website **(generate.com.au/resources)** and fill in your monthly cash payments and receipts. You'll soon see the effect on the cash balance.

✓ Play around with moving payments from month to month to see the effect on your cash figure.

✓ If you're not into Excel, look at online programs such as Float or CrunchBoards which can integrate with Xero and can auto calculate your budget for you.

✓ Review it every month and refine your estimates.

Want more help?

There's a growing library of useful business and financial advice on the Generate blog: **generate. com.au/blog.** We've also got a bunch of useful *(and free!)* eBooks and handouts here: **generate.com.au/resources**

And feel free to give us a call to discuss your specific circumstances on **(02) 9383 4580. We'd love to help.**