

# 14

# TIPS TO CONTROL CASH FLOW

## 1 Create a calendar

Have a monthly calendar and agree on trigger points for cash flow management. Include estimates and timing for larger lump-sum payments like finance repayments, leases and statutory payments (BAS, superannuation, ATO payments etc.)



## 2 Set standard timing for invoicing

Agree on the timing of invoicing and stick to it. Design your internal business processes and information collection and verification procedures to deliver to that timeframe.



## 3 Clearly state payment terms on your invoice

Make sure your invoice clearly states your payment terms. Get business or legal advice to ensure your invoice and terms of trade measure up in the event you have a defaulting payment that necessitates recovery action.



## 4 Instigate a calling program

If you send out invoices with 14-day payment terms, then on day 13 call key customers (who are due the next day) and speak to the decision maker or accounts person responsible. Let them know it's "a friendly call just to indicate your invoice is due tomorrow and confirming we can expect payment".



## 5 Monitor payment

Make sure there are processes in place to monitor payment as per the payment terms – this may mean simply checking your bank account. If the funds aren't there the day following an invoice due date, follow up with the customer.



## 6 Resolve disputes quickly

Poor payment may not be due to the customer's inability to pay, but because they disagree with what they've been invoiced for. As soon as a dispute is identified, make sure there is a discussion between the person in the business responsible for providing the service or product, and the customer. Document the dispute resolution agreement and ensure the invoice is addressed.



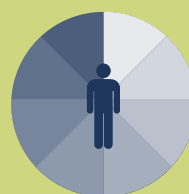
## 7 Talk to your creditors

Manage your creditor payments to meet agreed payment terms: cash flow can be adversely impacted if you pay creditors early. If you have cash flow issues then talk ahead of time to your creditors and suppliers and see if you can structure another payment arrangement. Do not wait until payment is overdue.



## 8 Meet your director responsibilities

As director of an incorporated body associated with running a business, a key director responsibility is to ensure the company can meet its short-term commitments – including current liabilities as and when they fall due. Cash flow is inextricably linked to meeting those commitments. Clearly monitor your business' position with respect to these commitments, raise 'red flags' early and implement corrective action if things aren't on track.



## 9 Take a close interest in your cash flow

Oversight your cash flow day to day, rather than letting the person responsible for dispatching invoices manage it in isolation. You will be in a much better position to negotiate additional working capital or carry-on finance with your bank if you are foreseeing potential problems and talking to your bank, customers and suppliers ahead of time.



## 10 If you're not a bank, don't act like one

Some businesses have payment terms that state 'the payment period is X days – if the account is not paid in X days the customer will be charged interest at a daily rate of Y per cent'. It's important to have that trigger for poor payers, but interest being charged doesn't help your cash flow. Better to get the payment in than have the amount outstanding.



## 11 Tackle the taboo subject: money!

Many business owners feel embarrassed about asking a customer why they haven't paid. To manage cash flow well, business owners need to get over those inhibitions.



## 12 Carefully manage inventory

Make sure you don't have too much working capital (cash flow) tied up in stock and inventory. There needs to be a balance between having sufficient inventory to service customer requirements and not having cash flow trapped in slow-moving or obsolete inventory.



## 13 Set a trigger for 'going legal'

Set a trigger time for when an outstanding invoice is put through a recovery process.



## 14 Communicate, communicate, communicate

Make sure expectations are clear and lines of communication are explicitly open. If you are talking openly to customers, suppliers, financiers, partners and investors about payment and cash flow issues, you can usually sort them out. Documentation is important, but be careful not to substitute an email for a straight-forward, simple discussion.

