STRENGTHEN CASH FLOW FROM THE OUTSET

PUTTING FINANCIAL AFFAIRS IN ORDER

Managing your cash in a focused manner is fundamental to survival, let alone success. Businesses are more likely to fail because they run out of cash - not because they're unable to generate a profit. You can have a lorry load of orders with the promise of untold profits in the pipeline, but if you don't have the cash to make and sell your products in the first place, and you are unable to pay your immediate bills, your business will fold.

CASH FLOW IS A COMMON HURDLE FOR SMALL AND START-UP ENTERPRISES. FOR THAT REASON, IT IMPORTANT TO STRENGTHEN CASH FLOW FROM THE OUTSET.
Monitor profit and avoid over-commitment. One common mistake entrepreneurs make is that they see a run rate of business and immediately start to incur costs. They'll rent an office, take on new lease commitments, buy a new car. These monthly payments can result in losing sight of the real cash that's generated through the business. Monitoring profit against commitments is a key component of managing cash flow. It is far better to take out a medium to long term loan at a low rate in the early stages, than over-finance the business by taking on big commitments.

Grow the business organically and keep costs down, especially if you can't access bank finance. Focus on keeping costs to a bare minimum. Forget the office; work from home. Forget the car; use public transport. Grow the business, grow a pot of cash and then invest in the business. Using that money to reinvest is vital.

Build relationships and trust with suppliers. In business there are situations when you have to commit to buying more stock or commit more of your time. In order to reduce the risk of over-committing, it's vital to build strong relationships with your suppliers. That way, your suppliers get to see your focus and return on that investment and they are more likely to support and trust you.

Align yourself with a key supplier and devote more time to selling their product set.

Ask for extended terms early on. Don't say, "by the way, I can't pay you for another three weeks." Getting a bad reputation for payment is a disaster. Getting a reputation for being open and honest from the start is far better.

Offer to pay a slightly bigger premium in exchange for extended terms to spread payments over a given period. Being open and working out that cash flow model from the outset is vital.

Reinvest profits wisely

Understand what your start up and ongoing costs are. Be realistic. It is better to overestimate expenditure and time and underestimate revenue than fall short of revenue and overspend.

Evaluate and monitor profit continually.

Reinvest your profit. That way, you''ll scale the business far quicker, than if you use the profit to rent another office building or buy a car. It's how you spend the profit that's important. Entrepreneurs always spend profit on the business. Successful entrepreneurs invest that profit on the right areas to maximise growth and enhance existing offerings.

Profitable businesses can still go under if they run out of cash at a critical moment. Forecasting is the most focused method of avoiding that obstacle.

Forecast all costs and profits. Focus on daily cash flow. Being aware of start up costs, how long it will take from first customer contact to first payment; estimating time, equipment, packaging, tax and staff costs is the first challenge. Knowing how much you need to earn in order to cover all outgoings, including overheads, salaries, stock, materials and capital expenditure; plus how much you need to break even and turn a profit is the second challenge. But it is the flow of money, the balance of cash that flows in and out of a business on a daily basis, along with the way in which profit is invested, that can make or break a business.