Managing cash flow in B2B

A Quick Guide for SMEs

ezyCollect

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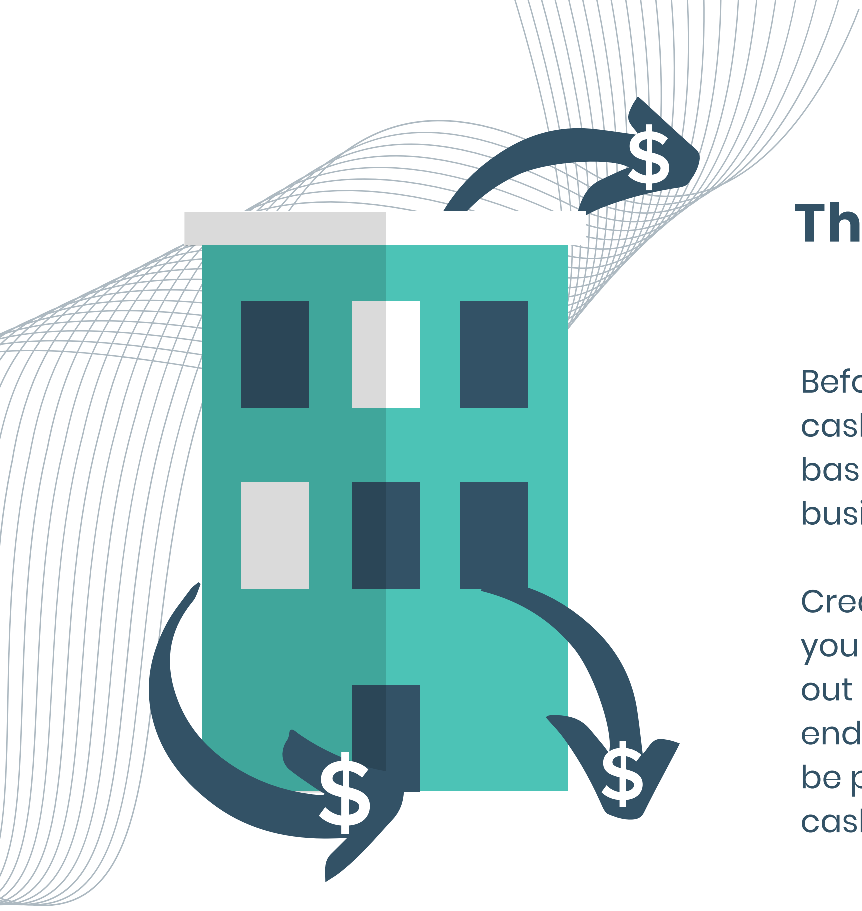
Introduction

The phrase "cash is the lifeblood of any business" is a common adage because it encapsulates the fundamental truth that no business can survive without sufficient cash.

Cash is what enables a business to pay its bills, invest in new opportunities, and manage unforeseen expenses. Without a steady inflow of cash, a business may struggle to meet its financial obligations, pay its employees, and keep the lights on.

Together with Westpac's Davidson Institute, we created this simple guide on how to track your inflows and outflows of cash, project future cash needs, and identify potential cash gaps that could disrupt your operations.

The basics of cash flow: The cash flow budget and working capital cycle



The cash flow budget

Before we plan on how to improve cashflow, you need to understand the basis of cash in and cash out in your business.

Creating a a cashflow budget will help you estimate the cash coming in and out of your business. It will reveal your ending cash postion which can either be positive, neutral or negative cashflows.

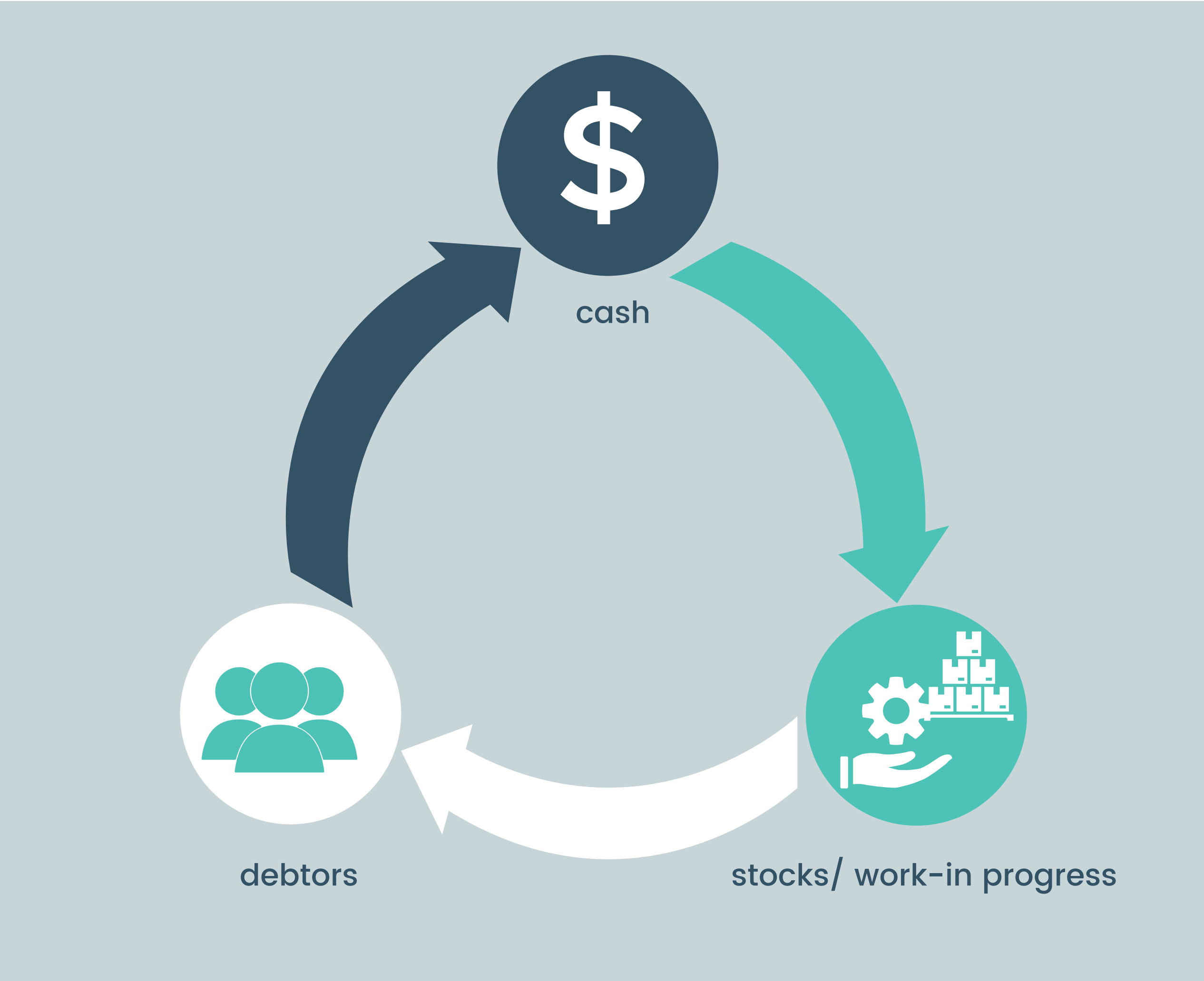
A positive cash flow can be spent, saved or invested

A neutral cash flow means you don't need extra funding, but there's a limit to save or invest your money.

A negative cash flow indicated that you need to find the cash to keep your business running.

Knowing your cash position will be a key driver of the initiatives you'll take in your business. But you'll aso need to know the speed of your cashflow (i.e. the timing of your inflows to fund your outflows).

Understanding the working capital cycle



The working capital cycle helps you determine how long your money will come back into the business. The cycle begins from when cash gets added to your business, then to when you use it to spend on stock or work in progress (for service businesses), and when you receive money back from payments or receivables which starts the cycle all over again.

The faster you turn the cycle, the more cash you will have available to you, allowing you to grow more rapidly, reduce the risk and cost of using short-term debt, and potentially improve your profit.

How to improve cash flow?

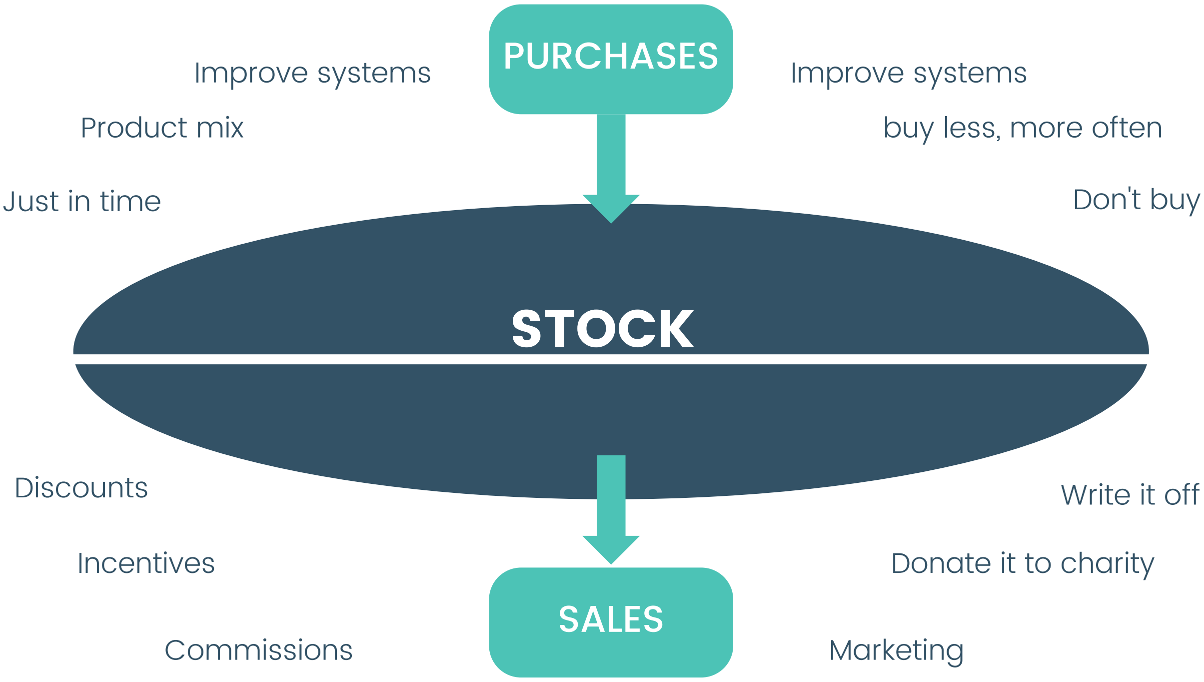
So we now know how cash flows and that if your work capital cycle slows down, it can cause your cash to hide instead of flowing. Now we need to work out how many and how to get your cash flowing again.

In the next following pages, we're gonna look at each element of the working capital cycle: Stock/work in progress and debtors, and the actions you can take to improve cashflow.

Review your stock pool to improve cash flow

The stock pool is a brainstorming tool to help you identify where you may be able to free up cash. The stock is like a big swimming pool where all your stock sitting. To fill out the swimming pool with stock, you need to purchase it. Conversely, emptying the pool means you have to sell the stock as quickly as possible.

THE STOCK POOL



SLOW DOWN PURCHASES

- Review product mix - Is slow-moving stock worth the cost?
- Is your stock management system optimised for efficicency and accuracy?
- Does your pipeline management help you make accurate purchases?
- Do the benefits of bulk purchases outweigh the cost of storing the stock and having your cash tied up vs buying less but more often?

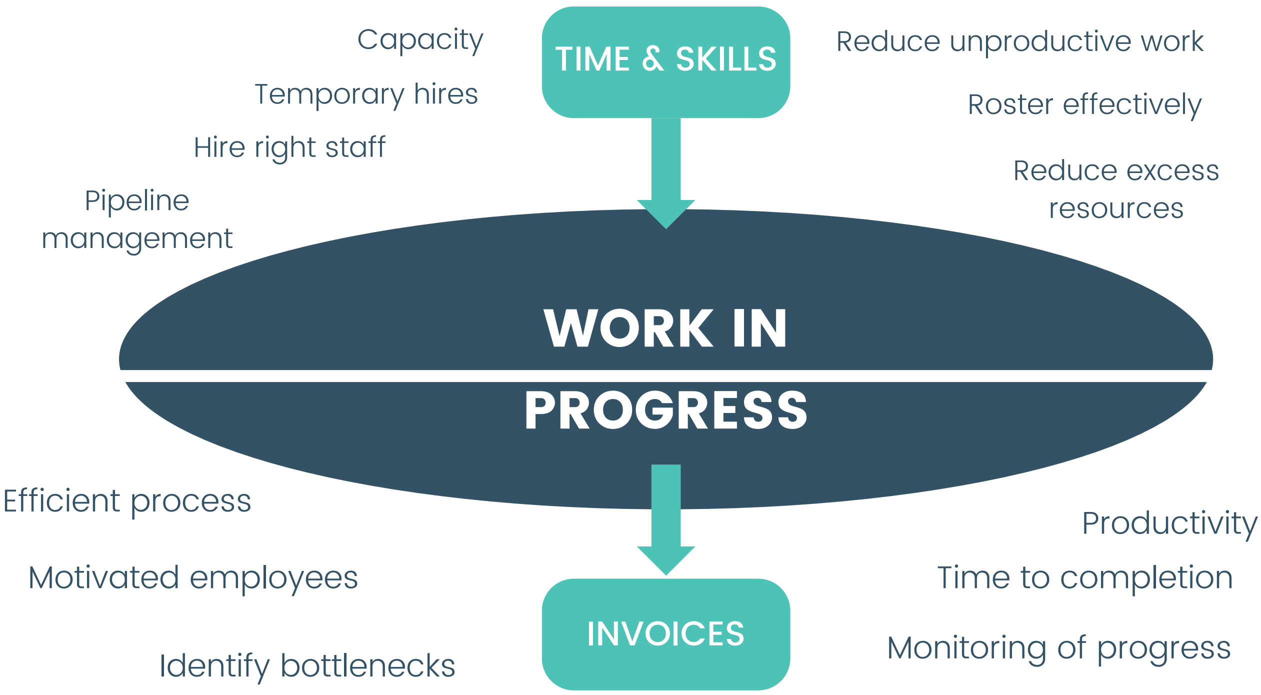
SPEED UP SALES

- Incentivise cutomers by offering discounts.
- Incentivise staff to sell more: commisons, bonuses or sdditional sales training
- Is your marketing effective? Consider packaging slow-moving stock w/ a produc that sell well. Or sell to a different market.
- Consider donating to charity or writing-off stock

Review your WIP pool to improve cash flow

A variation of the stock pool is the WIP pool for service business. In this case the work-in-progress (WIP) pool is like a big swimming pool where all current jobs you need to complete is sitting. To fill out the swimming pool with jobs, you need to have the right skills and number of people. Conversely, emptying the pool means you have to get the invoices out to collect cash as soon as possible by completing jobs in a timely manner.

THE WIP POOL



ENOUGH TIME & SKILLS

- Pipeline managment gives a good indication of the jobs coming up and skills and equipment you need to complete it.
- Hire the right people with required skills, attributes and capabilities
- Part-time or casual contractors VS full-time employees
- What are the capacity constraints of your resources?
- Ensure minute tasks are minimised

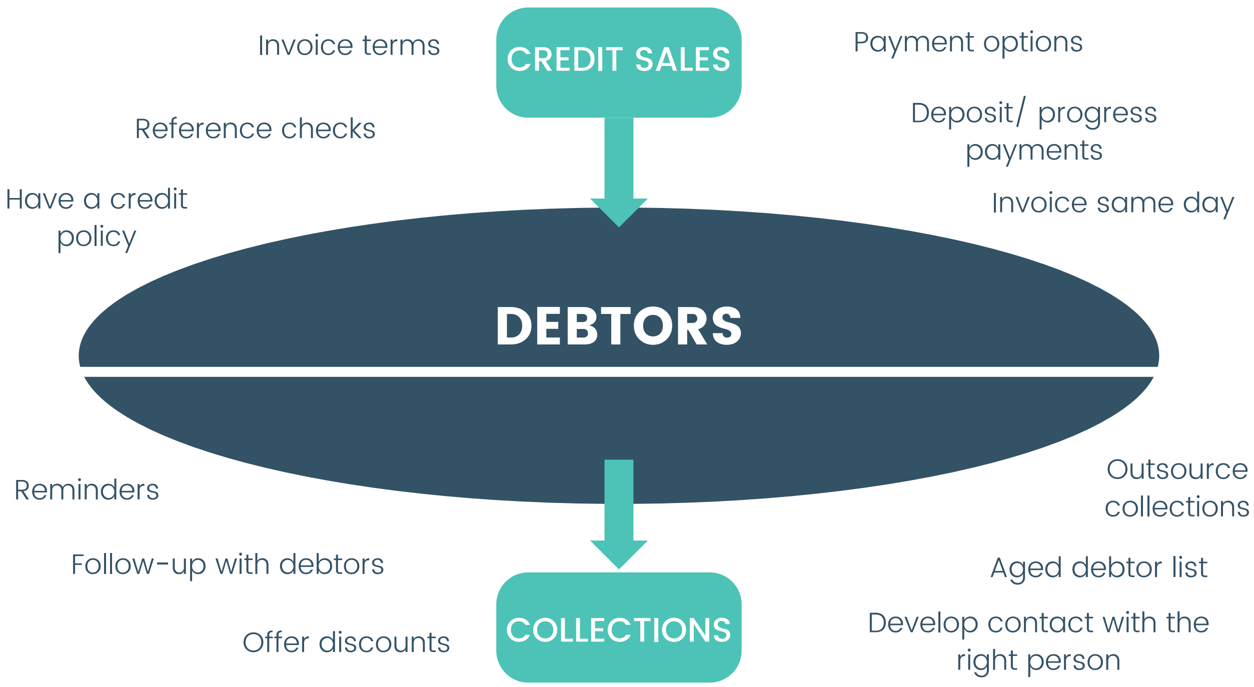
INVOICE CUSTOMERS

- Ensure your processes are efficient and that technology is in place to streamline work.
- Ensure your employees are motivated and productive to do quality work efficiently.
- Are there obstacles or bottlenecks that are hampering the completion of jobs?
- Is there process monitoring in place so you know what stage your jobs are at ?

Review your debtor pool to improve cash flow

Another variation of the previous visualization cashflow pools is the debtor pool. You can fill up the pool by making credit sales and empty it by collecting the cash from your customer efficiently.

THE DEBTOR POOL



STREAMLINE CREDIT SALES

- it's crucial to have a clear credit policy on your credit application.
- Review reference checks and credit scores
- Part-time or casual contractors VS full-time employees
- Your payment terms can include deposit requirements, progress payments, payment options, and whether you want to be paid in increments of 7 30, 45 days.
- Issue invoices promptly

IMPROVE AR COLLECTIONS

- Ensure you have an accounts receivable communication workflow to remind clients of invoices
- Ensure your AR automaion is optimised to follow up on overdue invoices using various channels
- Incentivise clients who pay earlier or those who sign up for direct debit payments (easier collections on your end)

Manage your cash flow with AR automation

The key to managing cash flow? Ensuring you get the cash back into your business as soon as possible. Understanding how cash goes in and out of your business and monitoring the cash flow cycle regularly will give you the information you need to plan for a healthier cashflow.

AR automation software can help you manage your cashflow, so you can focus on what you do best – growing your business.

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