

# Five Steps To Improve Your Cash Flow

August 24, 2011



London, United Kingdom (RPRN) 08/24/11  
— 5 Steps to improve your cash flow.

In this tough economic climate it is more important than ever to ensure that cash flow

is a priority in your business.

A cash flow gap occurs when your cash inflows and outflows don't keep pace with each other, leaving your business short of cash. Many businesses go into liquidation with poor cash flow, even though they may be a profitable business on paper.

Here we explain our top 5 proven ways to ensure you keep control of your cash flow and keep your business solvent:

## 1. Make understanding your cash flow a priority

Just like forecasting sales, dedicating time to analysing and forecasting your cash flow will give you powerful insight into the current and future status of your business, which will allow you time to plan and repair and emergent problems. One of the easiest ways to monitor your business' cash flow is to compare the total unpaid purchases to the total sales due at the end of each month. If the total unpaid purchases are greater than the total sales due, you are in negative cash flow.

## 2. Plan your cash income and outgoings with your team

Systematic financial planning is vital to a company remaining solvent. You must ensure that each Manager and department within your business is in line with the same financial plan. Overspending in any one area can tip the balance the wrong way for the business. Set out clear financial guidelines and sign off procedures with all departmental Managers. You should construct a budget, at least annually, which will help detail the potential future cash flow problems or pinch points, and then allow the business to react to these instead of reacting to the needs of the business.

## 3. Take steps to shorten your cash flow conversion period.

Using the following methods can provide a simple, yet effective way to create positive cashflow. These steps may include:

a) Preparing customer invoices immediately upon delivery of your goods or services to the customer. If you wait to prepare your invoices at the end of the month, you may be adding as many as 30 extra days to the date you get paid.

b) Monitoring your customers' use of credit and adjusting their credit limits accordingly.

c) Offering customers a discount for paying their invoices early. This is known as early settlement. For a quick example, if your usual policy is to have payments due in 30 days, offer a small discount such as 2 percent to customers who pay within 14 days.

d) Establishing a deposit policy for work in progress. For example, if you deliver a service, such as software development, home repair, or landscaping, you can adopt a policy that customers pay a certain percentage of the total invoice up front before the job begins.

e) Tracking your past-due accounts and actively pursuing collections. Most accounting software programs let you easily track past-due accounts, but you also need to have a clear process for pursuing collections. One process might involve sending out a series of letters letting your customer know that his or her account is past due and what steps will follow if he or she does not pay, such as turning the account over to a collection agency.

## 4. Decide who is vital to your business's success

Receiving discounts for early payment is one thing; but paying suppliers that aren't as vital

to your business before those who are is simply counter-productive. Likewise, giving better payment terms to customers just to secure a sale, could in the long run be self-defeating. Segmenting suppliers and customers in terms of their strategic



importance to your organisation will ensure that the best care is taken over those that will help your business the most.

5. Work together to achieve cash excellence

Decision makers within each part of an organisation should recognise that their individual department's mission is not simply a matter of achieving excellence in their field, but to act wisely with cash. Rewarding employees for actively improving cash flow is proven to have a great impact on organisations. As mentioned in point two, cash flow objectives set from tactical planning can provide a benchmark for departments to be measured against. A result of incentivising employees to meet objectives means cash flow can become more streamlined. These incentives do not have to be cash based either, sometimes a gift based incentive can have more 'perceivable' value than the actual cost; a Spa Day for example may only cost you £100 but may be perceived by the employee to have more value.

There is no single right answer to cash flow management but those who have invested time into adopting a cash flow management structure have seen dramatic positive effects. You have to have money coming in regularly to maintain an adequate cash flow for your business, not just endlessly streaming out. Monitoring your cash flow and taking steps to shorten your cash flow conversion period will go a long ways towards eliminating those dangerous cash flow gaps.

**About Us**

Sollertia was established in 2004 to allow SME's to benefit from cost effective adaptable outsourcing of their accounting and finance requirements, at a fraction of the cost to hiring dedicated in-house staff. Massive investment in contemporary IT, bespoke software, online web ware and superb accountancy professionals has allowed Sollertia's clients to benefit from having a completely outsourced accounting / finance department service - which cuts their accountancy costs by up to 50%.

Our services include:

- Cashflow Management      Financial Director Consultancy
- Outsourced Credit Control      Outsourced Payroll
- Management Accounting      Business Benchmarking
- Outsourced Bookkeeping      Tax Compliance Services

Sollertia are registered Member in Practice (MiP) with the Chartered Institute of Management Accountants (CIMA)



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