

# Managing Cash Flow

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According to the Office for National Statistics, 90 per cent of all failed businesses had some degree of cash flow problem. Lack of funds can have serious implications for businesses, from pressure from creditors for late payments to problems paying staff and other bills. In turn, cash flow problems can curtail a business' ability to maximise timely sales while negotiating creditor payments takes away from the proper development of a business. When creditors include HMRC or banks the consequences can be overwhelming.

Even if a business' balance sheet is in the black, if its wallet is empty while it awaits payments, then a business' ability to weather financial storms is hampered.

## How to improve cash flow

There are several steps you can take to boost cash flow in the business, for example:

Increase your sales price

- Cancel some of your existing commitments
- Reduce staff levels
- Renegotiate supplier terms, procure products and services from new suppliers

- Negotiate more favourable payment terms for ongoing obligations.

You can also consider bringing more money into the business, for example:

- Perhaps you have savings or could seek help from family members, friends or other business associates
- Apply for additional bank or other external funding such as invoice discounting
- Sell the business or some of its assets.

## But should you put more money into your business?

It's time to take a good look at how the cash flow problems have arisen and if the future looks viable.

You may have:

- Poorer trading performance or losses generated over a gradual period of time eroding cash and reserves;
- A period of growth increasing sales and costs which requires higher level working capital;
- A need to replace older equipment;

- A move of premises;
- Changes in legislation requiring you to implement substantive changes in your business.

Many profitable businesses fall into the trap of continuing business as usual in the way they have always operated. And when they experience a cash flow requirement they simply obtain new cash and pay it into the business.

Where there is a cash requirement, it's important to look closely for any underlying problems. Can they be addressed? Is it the right decision to pump more money into the same business or is there an alternative solution?

A thorough appraisal of all aspects of business performance can often indicate where changes can be made.

Ask for professional advice early. Discussing requirements at a very early stage ensures far more options are available for a satisfactory outcome.

Sometimes that may involve a restructure or business rescue and at other times informal negotiation with stakeholders may be required.

## Christine Convy & Jenn Stewart, Directors



Dunedin Advisory specialises in business evaluation. For those businesses experiencing difficulties, Dunedin Advisory can support business owners to determine the appropriate solutions to move forward.

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