

How can I improve my cash flow – cash out

Dorothy M Tuma

In How can I improve my cash flow – cash in, we discussed different ways in which to improve business cash inflows. This article looks at ways to control business cash outflows.

Record all outflows: Keep a record of all the ways in which cash leaves the business, including the times when you “borrow” funds for your personal immediate spending needs, with every intention of paying the funds back. Study those records on a weekly, monthly and annual basis in order to understand exactly what your business spends cash on and to identify the activities responsible for the highest expenses.

Separate business from personal: Using business funds to meet personal needs is a common practice that should be discouraged. Being a business owner does not give you permission to spend business cash whenever you please, as you please. Instead, pay yourself a salary that you will have full control over and let business funds be used to pay for approved business activities. This separation alone will greatly improve business cash flow.

Pay bills as late as possible, but on time: If your customers give you 60 days to pay your bills, pay the bills on day 60. Theoretically, this allows you to use business cash for other business activities during the 59 days between the time an invoice is issued and its payment due date. Pay bills on their last due date and not a day after. Violating payment terms will only result in late fees and penalties that will adversely affect business cash flow.

Negotiate favourable payment terms: If you have established a strong relationship with your suppliers of products (finished goods/raw materials) or services, ask them to adjust their payment terms for you. For example, you could ask your creditors to allow you to meet your payment obligations by paying in instalments instead of in one lump sum payment. If you run a school for instance and only receive payments when students pay school fees at the beginning of each of the three school terms, ask your food suppliers what arrangements can be made to allow you to pay them only in the months when students make payments. What kind of instalment payment plan - that is more in line with when the school receives payments - would your food suppliers agree to?

Consolidate activities: Several months ago when we were trying to identify the expenses that used up cash in the office, we found that multiple trips into town each day accounted for almost 80 percent of our monthly petty cash expenses. We therefore decided to limit trips into town to just two days a week. This both lowered our cash outflows and promoted efficiency within the office.

Two of your most important business cash flow management tools are your cash flow projections, and your actual cash flow records – weekly, monthly and annual. It is also important for you to: (1) identify any differences between projections and actual performance and (2) understand why the differences occurred.