UKBA™
UK Business Advisors Ltd

Boost Your Business

Practical Business Advice from the Independent Experts Issue 56 March '12

Keep Your Cashflow Under Control

It has been said before by many, but it is worth repeating - "Sales are flattery, profits are sanity but cash is king".

It has also been reported recently that 30 per cent of companies in the UK are still suffering from cashflow issues.

Follow these cashflow guidelines and this will help to ensure your liquidity remains robust:

Plan your cashflow year

If your business experiences peaks and troughs in demand. Prepare for these and put in place measures to ensure your cashflow reflects the changes.

Don't bulk buy

Hold as little stock as you can and turn it over quickly. Agree with your suppliers a right of return of unsold stock.

Look at getting stock on consignment (you do not pay before it is sold). Can you get your suppliers to deliver to your customers on your behalf? Careful planning should eliminate this potential drain on cash.

Keep costs down

Review all your cost items (including products and energy) and relate this to efficiency. Turning off one PC overnight can save over £50 a year.

Run a credit check on customers and potential customers

Look at the credit histories with a view to eliminating late or non-payment.

Try to instil in your staff the thought that "'a sale is only valid when the cash is in the bank".

Before accepting an order ensure the customer/potential customer accepts your payment terms - in writing.

It is also essential to enforce your payment terms and if a customer doesn't pay, put them on a stop.

Invoice promptly

Issue them as soon as is practical. Soon after they are issued, contact the customer by phone or email ensuring they have the invoice in their system and that they have no problems with the supply - record this.

Get them used to paying on time. Remember "a sale is only valid…"

Ensure your systems advise you of late customer payments

Keep an eye on your debtors' days *(trade debtors ÷ sales for the previous 12 months × 365)*. An increase could indicate a credit control issue.

Take precautions

Consider taking out insurance to cover all trading with a large or doubtful customers or even against individual invoices.

Negotiate or re-negotiate credit terms with suppliers

Ask for early settlement discounts (if cash is available) and try to split annual costs into monthly payments.

You will probably find this easier than paying a large bill at the end of the year.

What would happen to your business if a supplier failed? Too much reliance on any one supplier could leave you extremely vulnerable. Use credit checks and find alternate sources.

Review wages and salaries

In times where cash is tight, these (usually) monthly payments are strain on cashflow.

Consider invoice finance

These facilities can bring in a value of up to 90 per cent issued invoices - but it has a cost.

It can assist as the cashflow income then grows in line with sales, and bridges the gap between issuing an invoice and receiving payment.

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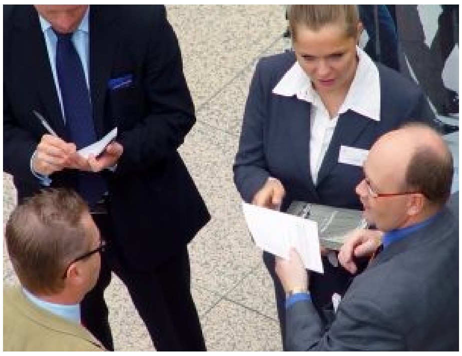
Raising Funding For Your Business

Whether you are seeking to raise equity or debt funding, you will need to present a business and financial plan, which clearly underpins your investment or lending proposal.

Broadly speaking this is what happens to investor/lending proposals:

- 60% are rejected immediately.
- 25% are rejected after a face to face presentation.
- 10% are rejected after further evaluation.
- 3% fail at the negotiation stage.
- 2% succeed in raising the equity or debt funding.



Reasons For Rejection

- Poor presentation for the business proposition.
- Financial forecasts are poorly constructed with weak assumptions.
- Weak cashflow.
- No track record for the management team.
- Lack of commitment from the management team
- No clear exit route.

Benefits Of Equity

Equity funding offers medium to long term funding with no interest costs or repayment schedules. Shareholders may agree to a dividend policy in the event that cash flow and company reserves enable payments to be made.

Equity investors can and should bring experience and networks as well as funds. Bank lenders will require equity investment before agreeing to advance debt.

Drawbacks Of Equity

Early stage investors will be seeking annual returns of up to 40% to cover their risk; therefore this is an expensive source of funding in the medium to long term. This annual return will reduce for later stage businesses.

The search for the right investor is time consuming and difficult. Typically it will take 6 to 12 months before cash is received from an investor, whereas the bank lending process can be considerably shorter.

Personal chemistry is always difficult to assess during the early meetings.

Shareholding dilution with potentially differing views regarding valuation.

The Proposal

The business plan will vary slightly depending on whether you are seeking equity or debt funding.

The plan should be concise (no more than 20 pages plus financial schedules) and should have the following structure:

- Executive summary
- History
- Market opportunity
- Product offering and product development
- Intellectual property rights (IPR)
- Manufacturing/sourcing strategy
- Competition and competitive advantages
- Routes to market
- Risks and threats
- Management team and organizational resources
- Financial assumptions
- Financial plan
- Exit route for equity investors

The Business Plan MUST NOT:

- Over-sell the business opportunity
- Forecast sales that are over optimistic; they should always be conservative and not based on straight line projections
- Be overly complex with over emphasis on technical or management jargon
- Discount competition

Next month: Project Management Is For SMEs – Not Just The Big Boys! ~ Improve Your Profits With Continual Improvement