

nuvem  9

CASHFLOW FOR STARTUPS

NIALL MCGINNITY

We regularly get feedback that small business cash flow is the number 1 reason people lie awake worrying at night. Concerns on if there is enough money to pay suppliers, cover salaries, provide for upcoming tax bills, and whether customers will settle their invoices in time. Quite often, however, the missing ingredient can just be an effective cash flow management system. This can enable better access to the data, and allow for swifter decision making. As Nuvem9 specialise in working with small, growing businesses, our expertise in small business cash flow management is extensive. We have therefore provided a step by step guide to allow you to better manage cash flow going forward.

#1 Get your systems right

It is essential that you utilise the right accounting system. Without having a system that allows you to collate and process your accounting information efficiently, you will not be able to make timely cash flow decisions. It is for this reason that Nuvem9 highly recommend Xero. It integrates with your bank, meaning cash balances are accurate and in real time. This then allows you to bring all customer and supplier balances up to date and get an immediate snapshot of what is owed in and out of the business. (Note that if Xero really isn't for you we also have a partnership with Quickbooks).

#2 Get great at invoicing

Collecting money efficiently from your customers is the cornerstone of a successful small business cash flow system. There are a number of ways you can make this happen:

Agree your quote in advance

By agreeing the scope and price of work in advance, you can greatly reduce any potential delays in payment. Preferably also get the quote signed off before committing time and/or stock to any job.

When work is completed send the invoice immediately

By issuing an invoice as soon as work is completed and the job is accepted, you will start the credit period, namely the period of time you allow your customer to pay the invoice in. If you aren't on top of your invoicing you are unnecessarily delaying the earliest potential payment date and providing extended credit to your customer for no reason.

Send your invoice by email

Similar to the above, sending your invoice by email rather than post avoids delaying the invoice in transit and greatly reduces the risk of the invoice not being received at all.

Include all important details on the invoice

By ensuring your invoice is complete in terms of the name and address of the party being invoiced, the description of the work completed and/or description and quantity of units sold, the potential delays for queries are greatly reduced. If your customer also requires purchase order references ensure that this is included to enable swift processing on their side.

Send to correct person

If your customer's business is relatively small, the person who authorises and processes payments is likely the same person who owns the business and ordered your work. However, as businesses grow this function will likely split, meaning you need the accounts contact name and email. One of the most common reasons businesses fail to get paid on time is due simply to not sending a copy of the invoice to the person who processes the payment. Don't assume your customer contact will do this – ask for the details and do it yourself!

Include bank details

This might seem obvious but if you want to be paid by bank transfer then make sure you have the bank details clearly stated on the body of the invoice. The customer may be extremely busy and set aside time at a certain part of the week to do payments. There is nothing more frustrating than then finding you don't have the information needed to process the payment, and it could be weeks before they have time again to process the payment or even ask you for the information.

Include payment links

Using Xero, there are now options to include payment links for Online Payment Services such as PayPal, Stripe and GoCardless. This means you can receive an email invoice, click on a link in the invoice and be taken straight to an online payment page. This can demonstrably speed up payments and the cost of using them is far outweighed by the benefit to your business' cash.

Use right payment terms

Take care to choose your payment terms and build in some slack for late payment. For example, if you need to settle suppliers or sub-contractors in 30 days you would be best advised to ask your customers to pay within 21 or even 14 days.

#3 Get firm on your credit control

In Tip 2 we identified ways to make sure that your customer gets invoiced on time, correctly and with details in place to allow for swift payment. However, many, many businesses still experience late payments. Why? It could be a combination of poor systems in place in the customer side or poor cash flow which is holding up their own receipts. Either way, you need to be on top of your credit control to ensure it doesn't impact on your own cash flow.

Issue reminders in advance of due date

This can greatly reduce the risk of late payment by people who genuinely haven't received the invoice or who have forgotten its due. The "I haven't received the invoice" is also the most popular excuse from a customer who is deliberately trying to delay making a payment so preempting this with a timely reminder before its due can be very effective. Note that systems exist to automate the reminder process: Xero has its own functionality and specialist tools like Chaser and Satago link seamlessly with Xero. This means a very effective process can be working away in the background without adding any additional admin to your own processes.

Deal with Queries Promptly

If a customer has raised a query on one of your invoices, this means that all or some of the invoice won't be paid until they have received an adequate explanation. To that end do not sit on these queries! Make sure to respond fully and promptly, providing adequate backup documentation where necessary.

Escalate if necessary

Sometimes you have to escalate the issue either in your own company or on the customers side. If you feel that you simply cannot get an invoice cleared for payment, and the person you are dealing with can't or won't help, simply escalate it to their manager, or the business owner. Similarly, if work is being queried as a reason for non-payment, get the person involved in delivering it in your Company to assist in resolving the issue.

Use a credit control agency if you haven't time

Credit control as a function is vitally important. if you haven't got time to send the reminder emails or make the phone-calls delegate it to someone who does, or consider using an outside agency. You can always be retained as the point of escalation by divorcing yourself from the initial contact. This function has to be undertaken and using your own workload as the excuse for not doing it will simply lead to cash problems in the longer term.

#4 Use a cash flow tool to schedule in receipts and outgoings

An effective small business cash flow tool will allow you to see at a glance what the projected cash position will be in coming weeks and months. You can utilise a simple spreadsheet or go for a cloud app such as Float which integrates with Xero and syncs as Xero is updated with new invoices and changing bank balances. (You may also be interested in using Nuvem9's own Google Doc based solution, My Cash M8; please send us a contact form enquiry or email info@nuvem9.co.uk and we will set up a call to set this up for you).

In essence your cash flow system should be:

- Realistic in terms of timings: if you have a doubt over getting paid on time from a certain customer its better to build that in to give you the most likely picture, rather than build false hope and create an issue when you are let down
- Include everything: the cash flow should cover all outgoings including loan repayments, salaries and taxes
- Up to date and accurate: make sure you are working off up to date bank balances, aged receivables and payables positions to ensure nothing is missed

You should also try and build in different scenarios to prepare for as many eventualities as possible, e.g. what is the impact in this invoice being paid late, what happens if I delay this payment out etc. This can then lead to genuine analysis on long term financing needs and the impact in boosting working capital with a loan to fund, say a new sales role that accelerates additional revenues once bedded in.

#5 Speak to your suppliers and maximise credit terms

Your suppliers are as crucial to your business as your customers are. They supply you with business critical materials, stock, infrastructure and services. So what do you do if your cash flow is highlighting that your supplier liabilities will be difficult to meet due to seasonal fluctuations in trade for example?

Maximise terms

Firstly, make sure you maximise credit terms. By this we mean, don't pay a supplier on day 7 if you have 30 day terms agreed and in doing so you are making it difficult to settle other bills that are due now. This might seem obvious but sometimes aggressive credit control on the suppliers side may cause bills to be paid earlier than you need to, or can afford. Make sure that Xero is updated with the correct payment terms as stated on the invoice, and indeed make sure these are consistent with contracts.

Use Discounts well

By strategically leveraging early payment discounts you can add money into your cash flow permanently. As an example, if your cash flow shows you can comfortably pay Supplier A on the invoice due date in 20 days, but you get a 5% discount by paying now, then pay now. This saves you money in the long run and causes no issues in the short term. Conversely, if you are depending on receiving a customer receipt before being in a position to cover the supplier bill then don't take advantage of the discount if the safety net isn't there.

Don't be afraid to ask

All too often we see small business owners adopting an ostrich approach if they can't pay suppliers on time. They bury their head in the sand, avoid phonecalls and emails, and only raise it again when the funds are there. However, this causes issues at the supplier side – imagine what they are thinking when they have an overdue bill and are getting radio silence when trying to resolve. They may change terms in the next invoice or withdraw critical services entirely. They are also likely to demand payment at a time when you are under pressure, causing a knock on effect to other suppliers. It is better, therefore, to build a relationship with your suppliers, and if cash is tight to be upfront and explain circumstances, and suggest an alternative timescale or repayment plan. A little honesty combined with regular updates almost always results in flexibility on their side – after all they will almost always want to continue to work with you as you are a valued customer.

Prioritise suppliers

In a situation where cash is tight, and you are having to stretch terms with suppliers, a big mistake made is to pay the wrong people. You should pay your statutory obligations and business critical suppliers above all else; that is not to say that the other suppliers aren't important, but certain suppliers creditors can cause business failure if they are abused. Bank repayments should also be covered to ensure that critical overdrafts and company card facilities are not withdrawn causing catastrophic impact to cash balances.

#6 Avoid the short term surprises

Where at all possible, utilise savings accounts to set aside business taxes such as payroll taxes, VAT and corporation tax throughout the year. Our advice is to simply then remove these balances from your day to day cashflow. The taxes are never your money and utilising them as part of your own cash is akin to taking out a loan – they need repaid. Removing that "loan" as far as possible means you avoid nasty lump sums every VAT quarter for example. One of our clients pays the HMRC liability on payroll on the same day as the net salaries are paid. As far as they are concerned it is one business expense and should be paid together. HMRC's Making Tax Digital

initiative will mean that visibility on tax liabilities will become clearer and available in 1 single digital portal and this will further improve small business cash flow management in this area. Another example of a short term surprise comes in the area of stock – if you have a seasonal peak in trading, e.g. around Black Friday to Christmas period for online retailers, you need to factor in the upfront expenditure: increase in stock, increased digital marketing spend etc.

#7 Prepare contingencies

By now you will have hopefully created an up to date, accurate cash flow picture for your business, and are taking steps to best manage your receipts and outgoing payments. However, what do you do if you have a need to cover a short term shortfall or a longer term need to inject fresh cash by way of loans. The answer? Prepare contingencies well in advance. The following are some examples of how you can prepare:

Invoice financing

Invoice financing exists to advance the money due on a customer invoice ahead of the due date of the invoice. In return the business pays the lender a fee on the advance and interest on the time its borrowed. This can be an extremely effective tool in bridging very short term cash flow issues, particularly around end of month payroll. Nuvem9 have partnered with a network of lenders, including Market Invoice and Invoice Cycle, and we highly recommend getting these facilities approved in advance of needing them. This means that when the time comes to utilise the service money can be paid in within a matter of hours from the request being made.

Contract financing

As businesses grow the value of contracts will grow, the size of customer will also grow and different cash flow problems may materialise. Whilst profitability increases, it does not necessarily have an immediate impact on cash balances. For example, you may need to pay for increased staff, expand infrastructure or pay for some supplies upfront, to service the income due. It is here that a contract finance partner could assist; they essentially advance a significant proportion of money based on the value of the first 6-12 months of a contract, and it is repaid back monthly plus interest. Such arrangements can be extremely effective at reducing the impact of growing pains in a business.

Working Capital Loans

This type of loan injects a principal lump sum of cash into the business which is then repaid back monthly over a period of 12 to 60 months. Loans can be taken on for a variety of reasons: to fund additional stock, increase workforce, move premises or simply to rationalise more costly finance facilities. Nuvem9 have a funding service which leverages a wide range of fast responding lenders and we have leveraged millions of pounds support for our client base.

CASHFLOW FOR STARTUPS



Small Business Cash Flow – summary

We trust this guide has been useful and we really hope your cash flow benefits from some of these tips, if you are not already following them. Nuvem9 specialise in implementing accounting systems to enable business owners to take better control of their finances and decision making. If you would like to set up a free video call to discuss your business needs in more detail please contact us via the [Contact form on site](#) or email info@nuvem9.co.uk.

YOUR SIMPLE TOOL FOR CLEARER
BUSINESS CASHFLOW DECISIONS

[> KNOW MORE](#)

