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Financial news

# 'Cash is the king'



With much talk of a credit crunch, Business Link's Gloucestershire advice team manager, Grant Cozens,

believes that by focusing on cash control and credit management systems that businesses can continue to compete and grow – even if trading conditions become more challenging.

**"In a tougher trading environment 'cash is king' – cash is the oxygen that enables a business to survive and prosper and is the key indicator of business health," says Grant Cozens.**

"No matter how profitable your business, if you don't have enough money to pay your staff and suppliers before receiving payment from your customers you could fail.

"It is particularly important that you invest time in accurately forecasting cashflow, predicting the peaks and troughs in your cash balance.

"Having an accurate cashflow forecast will help ensure that you can achieve steady growth without overtrading. You will know when you have sufficient assets to take on additional business – and, just as importantly, when you need to consolidate."

Many regular cash outflows, such as salaries, loan repayments and tax have to be made on fixed dates. You must always be in a position to meet these payments in order to avoid large fines or a disgruntled workforce.

To improve your cashflow you can:

- Ask your customers to pay sooner
- Chase debts promptly and firmly
- Use factoring
- Ask for extended credit terms with suppliers
- Order less stock but more often
- Lease rather than buy equipment
- Improve profitability

Effective credit management is more vital than ever and the following steps are recommended.

It is important that you gather essential information covering your customers. You should check their exact name and legal status – you will need this if you ever have to take legal action to recover a debt.

Use headed paper to verify company details and make sure that the order is from the same entity. Use a reference agency to verify details and check their credit status. Ask for references from other suppliers.

To 'assume' is always dangerous, so be



clear from the outset how you will conduct your business.

Set out payment terms in writing and try to obtain written acceptance. Make sure that your customer's order does not suggest different terms. Set out penalties if payment is late.

Attention to detail can make all the difference in getting paid on time. An invoice cannot be paid until it's received. An invoice will not often be paid if the customer's order number is not quoted; or if it's sent to the wrong address or has the wrong company name on it.

The only good customer is a paying customer and if you don't ask you might not get. For large or important amounts, telephone before the due date to make sure everything is OK. Make immediate contact when payment has not arrived.

Be assertive about what you expect and when you expect it. Follow up promises to make sure they are met. Don't make empty threats – always do what you say you're going to do and when you said you would.

Grant Cozens said: "While we must be realistic, we must not be overly pessimistic regarding the economic climate as this attitude could in itself have a damaging effect on the economy.

"It's sensible in the current trading conditions to take a sensible and considered approach to financial management – this is good practice anyway. Businesses should tighten their credit protection procedures while also limiting borrowing wherever possible."

Business Link's tips to survive the credit crunch

- Track cash flow. Remember cash is king – and having cash, rather than trying to borrow money, brings flexibility to exploit market opportunities while rivals may be struggling.
- Keep up to date with the economic signs,

particularly in your own sector or market segment, and be prepared to act quickly if things change.

- Use technology to become more efficient.
- Don't tie up cash in stock. Think lean.

- Tighten credit policies.

- Improve management reporting to avoid nasty surprises.

- Know the profit margins of all your products or services and develop a pricing policy to maintain them.

- Concentrate on the most profitable products and services. Cull those that are unprofitable.

- Diversify into other geographic markets or industries to spread risk.

- Build a relationship based on honesty with your bank manager.

- Analyse your property costs. Move to cheaper or smaller premises or sub-let unused space.

- Talk to your customers and find out how you can work more closely with them.

- Pamper your best, most profitable customers. Drop the unprofitable ones.

- Get involved in networking groups or industry committees to gain a better understanding of market conditions.

- Involve your staff. Work with them to find ways to cut costs and increase efficiencies.

- If job cuts are deemed necessary, find out if staff would rather accept a pay cut or reduction in hours.

- Don't give in to negative thinking.

To help businesses improve the performance and competitiveness of their operations, Business Link has produced a special guide 'Running your Business'. To order your copy contact Business Link on 0845 600 9966. Visit the Business Link website [www.businesslinksw.co.uk](http://www.businesslinksw.co.uk)

## Money digest

### Travel money gets exotic

STAFF from The Co-operative Travel branches are getting to know their Rupees from their Riyals and Dinars from Dirhams, as the travel agent expands its range of foreign currencies.

The Co-operative Travel, part of The Midcounties Co-operative, now offer customers an additional 24 specialist currencies from a variety of countries including Columbia, Botswana, Nepal and Qatar. The usual range of currencies is still available.

As holidaymakers become more adventurous in their travel and Costa Rica replaces the Costa del Sol as a preferred destination, The Co-operative Travel is meeting their needs for more unusual currencies.

Helen Davies, foreign exchange sales and operations manager at The Co-operative Travel, explains: "The global gateway has really opened up, and exotic locations have become cheaper and more accessible. It's no longer a small group of jet-set elite who are travelling to far-flung and mysterious places.

"Holidaymakers are becoming more sophisticated in their holiday tastes and for that reason we have decided to expand the range of foreign currencies we can exchange. Customers will be able to buy or order their chosen currency when they book their holiday, which means there is no last minute panic at the airport."



FOREIGN MONEY: Helen Davies

### Concerns over PPI policies

AROUND 6.5 million new payment protection insurance policies are taken out each year, generating around £5 billion in premium income. But the cover has come in for increasing criticism in recent years, after it emerged many consumers had been mis-sold policies they would never be able to claim on.

Research carried out by Citizens' Advice found that 85 per cent of its clients who had tried to claim on one of the policies had been unsuccessful, despite the industry claiming that just 15 per cent of claims are turned down.

A report by the Competition Commission follows a 16-month investigation into the PPI market following a referral from the Office of Fair Trading.

The Office of Fair Trading investigation was triggered by a super-complaint from Citizens' Advice about the cover.

The CC is consulting on its provisional findings until June 30.