

## The importance of optimising your cash flow

Quite simply, cash flow is the money flowing into and out of your business at any given time. Maintaining a healthy balance between these movements is vital. Poor cash flow is the single biggest reason that businesses cease trading. While everything else may be going swimmingly – growing customer base, great sales, fabulous reputation – if the cash flow is sluggish the whole enterprise is at risk. By taking a few moments out to digest the advice given in this article, you could save your business real hardship in the future.

There are some routines you can set in place from the offset to avoid cash flow problems. First of all, establish a clearly defined process with your clients. Make invoicing promptly a priority and clearly explain your payments procedure. By defining your business as a serious enterprise that demands punctual payment from the start, you'll help your clients become accustomed to paying you on time, every time. Depending on the type of business you run, you could also request partial payments upfront, before goods are delivered or services rendered. This is a good psychological nudge to encourage clients to pay the balance promptly – if some of the bill is already covered, why not just get the remainder out of the way too?

Another way to increase the number of payments you receive before deadline is to introduce an incentive. Get creative; offer a 5% discount on the next order for payments made ten working days before they're due; enter the names of all customers paying promptly into a prize draw to receive vouchers worth £50 or go the other way and add interest to penalise those who are late to pay their invoices.

It's also important to note that the way you invoice can make a difference to how quickly you receive payment. Try sending invoices by email – as well as being free, it's fast. Alternatively, if you like to send hard copy invoices, vary their style. The same familiar envelope dropping through your clients' letterboxes each month could lead to complacency. Rewrite your collection letters from time to time, change the layout or move / resize your logo. Changing these small details is sometimes enough to jolt a client into more prompt payments.

So far we've looked at monies coming into your business but it's also possible to retain control of cash flow from the other side of the equation. It's essential that you carefully identify upcoming expenditures – be honest with yourself about how much services will cost and whether prices may rise. When you need to estimate, round up rather than down. Don't make the mistake of overlooking key outgoings. As well as rent, utilities, salaries and taxes, you should be considering vehicles costs, advertising, equipment maintenance and many other costs specific to your business.

Finally, pay your own bills when they're due, not before. Although you may feel organised and on top of things when you pay a bill prematurely, in fact that money is better contributing to your healthy cash flow than someone else's!