Special Report For:

Business Owner
Managers
Office Manager

Save Time and Money – When your Business is Growing

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Is it Good to have Growth?

Growth is good if it achieves the main business aim of increasing the return on money invested.

In times of growth there are numerous pitfalls that one needs to be aware of. It is during this time that many businesses have failed. A major reason is businesses are chasing volume by reducing prices which has the effect of reducing margins. Inadequate funding is another major problem.

A plan is required to manage growth to ensure increased growth adds value to the business.

Businesses do not fail by not making a profit, but by not having the cash to meet their day to day running costs. Taking on high levels of liabilities and or debt can create the situation of not being able to meet such obligations.

Cash Management:
Cash management requires major attention during a growth period. This is especially so in the areas of accounts receivables, accounts payable and stock.

Accounts Receivables
Accounts receivables are the main source of funds and requires the major attention it warrants. It is the lifeblood of the business where sales are made on credit and not on a cash basis.

Accounts Payables
A source of funds used in a business is the "free credit" obtained from suppliers. Interest is not generally charged on this money which has been used to purchase goods and services. The longer this free credit is used without detrimental effect on the business relationship, the better from a cashflow point of view.

Stock
This is a major area where large sums of cash resources can be tied up. High stock levels can lead to:

- High interest costs – paid for before sold incurring overdraft interest charges.
- High warehousing costs – needing more space to house the stock and hence higher lease charges.
- High handling costs – more time is involved in handling the stock.
- High obsolescence – a far greater chance of some stock becoming obsolescence.
- High physical losses – more chance of stock going missing.

It should be the intention to hold minimum stock without adversely affecting the performance of the business.

Effective stock management leads to effective cashflow management.

Cash Planning

As already mentioned cash is a vital part of business. Managing cashflow is very important and the ability to be able to predict cash requirements for the future is equally as important.

The cashflow forecast attempts to predict the timing of a businesses cash receipts and cash expenses. With this knowledge decisions can be made for any big cash expenditure that may occur, e.g. new plant and equipment.

Invariably, the timing of business profits and when the cash is received in the hand do not coincide. The cash from sales made this month may not be received until several months latter. Similarly, for expenditure. Also assets may be purchased with long term debt, of which only a portion will affect profits, but the full cash repayments still need to be made.

Cash flow forecasts are a management tool that is used in the decision making process. A cashflow forecast can be used to assess possible funding requirements and to explore the likely financial consequences of alternative options or scenarios. The forecast can be used to prevent major planning errors, anticipate problems, and to identify areas were improvements can be made to the cashflow.

As with all planning cashflow forecasts are a tool that there is no correct answer. Therefore it is normal to raise a number of scenarios based on different criteria or assumptions.

Combining these various scenarios mathematically can improve the overall cashflow forecast.

Lack of Cashflow Forecasting

A business that fails to prepare cashflow forecasts could be heading for trouble especial in time of growth. The lack of a cash budget is a red light – it suggests management cannot identify future cash requirements, has no forward plan and no idea where the business is headed.

Cash deficiencies need to be anticipated in the planning stages so that they can be dealt with before they occur. It is particularly important that forecast figures be compare with actual results on a regular basis so that business can react quickly to problems as they develop.

Conclusion

In times of growth, cashflow forecasting is a major tool to ensure that the business has sufficient cash resources to fund the growth.

Before commencing a growth phase it is vital that cashflow forecasting is undertaken. Regular updating of the forecast is also vital. Undertaking cashflow forecasting will save a business valuable time and money.