

#### **Finance**



## "The ability to sign a cheque is the least reliable guide to a company's fitness"

#### **David Plowright**

Revenue is vanity....margin is sanity....cash is king. In order to not run out of cash, you must first answer 4 questions:

- What is your present cash position?
- Based on your present cash position, when will your company run out of cash?
- How can you reduce your cash burn rate?
- How can you increase the cash into your business?

# What is your company's current cash position?

To answer this question, you will need an understanding of cash flow forecasting.

Example of a cash forecast (in £000's)

CASH FORECAST						
	Week 1	Week 2	Week 3	Week 4		
Cash at end of previous week	121.00	140.00	56.00	79.00		
Payroll	51.00	51.00	33.00	33.00		
Payroll Tax Payment		59.00				
Amount Available to Pay Bills	70.00	30.00	23.00	46.00		
Invoices that have to be paid (Priority 1)	6.00	5.00	8.00	2.00		
Invoices that should be paid (Priority 2)	16.00	12.00	18.00	2.00		
Estimated Expense (No Invoice Yet)	16.00	9.00	4.00	20.00		
Rent						
Loan Repayment						
Total Cash Out Flow (Non Payroll)	38.00	26.00	30.00	24.00		
CASH AVAILABLE BEFORE COLLECTIONS	32.00	4.00	(7.00)	22.00		
Cook from Cook on the first of the cook	100.00	42.00	06.00	06.00		
Cash from Customers (Estimate)	108.00	42.00 10.00	86.00	96.00		
Misc Receipts		10.00				
Total Cash available at end of week	140.00	56.00	79.00	118.00		

You should conduct this cash analysis on a weekly basis. If that seems unrealistic then bi-monthly would be the absolute minimum while your company is in a distressed state. Your cash projection should be rolling and made for 90 -120 days. Remember when making your cash projections, plan for the worst case.

**Finance** 

Now that you have an estimate of when your company will run out of cash, it is time to work on reducing your cash out and increasing cash in.

<b>Expenses</b>	Details		
Company cars	Effective immediately, cut out company cars even your own.		
Company credit cards	The only person that needs a company credit card is you.		
Computers & software	Do you really need to upgrade your computers and software right now?		
Consultants	Your new philosophy should be if you cannot do it in-house, then you should not be doing it right now.		
Leasing	If you need an expensive item for your business, lease rather than buy. Subleasing may be an option too.		
Legal services	To prevent high costs, limit your legal services to those areas important to your company's survival.		
Memberships	Even if they do turn into sales contacts, without cutting costs, you will be out of business before they do.		
Mobile phones	If you feel that your business cannot survive without mobile phones then put in place a use policy.		
Pay cuts or lay-offs	Both difficult decisions to make, but are a quick and effective way to lower your costs.		
Personal Airplanes	Just added to make sure you're still paying attention!		
Rent	If you are in trouble, other tenants could face similar issues. This can be a good time to renegotiate with your landlord.		
Suppliers	Use any advantage to get supplier discounts e.g. sole supplier arrangement.		
Support services	Cut out support services for customers that slow pay or don't pay.		
Travel	Put a moratorium on travel. Only approve travel that is necessary to bring in revenue.		
Marketing materials	Cut out marketing materials that have never worked and are no longer relevant (pens, notepads, calendars).		
Telephone	Make sure that you are getting the best rate out there. Make sure you are only paying for those services that you need.		
Other expense items	Are there expense items you can cut without affecting your revenues in the near term?		

Use the table on the next page to see where you can reduce your expenses.

# Finance

### **Expenses** How can you reduce your expenses? Company cars Company credit cards Computers & software Consultants Leasing Legal services Memberships Mobile phones Pay cuts or lay-offs Personal Airplanes Rent Suppliers Support services Travel Marketing materials Telephone Other expense items

Remember, more than anything else, you must get control of your cash.

No hiring, no capital expenditures, and no purchases without your authorisation!



Here are some ideas to create revenue growth. How do these apply to your business?

REVENUE GROWTH				
REVENUE	DETAIL	CAN THEY BE INCREASED HOW?		
Price increases	Are you under pricing? Raise your prices to market rate. You will likely see little change in sales volume, and a dramatic increase in profits and cash.			
New markets	Selling a product into a new market can be a quick boost for your sales if you have ready and willing partners to help you.			
Excess equipment	Look around you and identify any excess equipment. Convert this to cash as soon as you can.			
Excess inventory	Like old equipment, you should sell any out-of-date and excess stock. You will get your best price by selling it to your customers.			
Sale and leaseback	If you own large equipment or business property, cash out your equity position. Consider using a sale & leaseback arrangement.			

In addition to savings in expenditure and growth in revenue, it is important to consider receivables management and tax money.

Advance payments on orders - this advance will give you working capital to complete the order and increase your bank balance. Encourage your customer to give you the advanced payment using a discount on the overall price.

Collection agencies - if you have written off receivables, consider getting a collection agency involved.

Collection procedures - do not be shy about requiring your customer to pay on time.

Debt forgiveness - you may be able to negotiate outright debt forgiveness in return for a long-term buying commitment.

File a tax return - if your company is liable for Corporation Tax and makes a loss from trading, the sale or disposal of a capital asset, or on property income, then you may be able to claim relief from Corporation Tax.

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