

## A good Business but with Cash Flow Problems?

**You have a good business , but are encountering the frustrations and pressures of managing your cash flow, if neglected a good business can fail. Stephen Jackson helps to clarify the problem; cause, effect and solution.**

**Are you spending too much time managing cash flow?**

In our consultancy role, we often encounter the frustrations of managers who have a good business, but can't understand why they are spending so much time managing cash flow. Pressure from the bank or creditors just seem like an unnecessary distraction.

**A good business can fail if cash management is neglected.**

In the short term, these pressures are likely to increase. Economic conditions are difficult today and are forecast to deteriorate further in the next 12 months. Such conditions tend to reveal the inefficiencies that have crept into a business, that have been disguised during better times. All too often good business models, producing good paper profits, fail through a lack of efficient cash management.

There can be many reasons for this – chasing turnover, lack of stock control, poor collection systems, changes in terms of trade etc. Regularly we see cash “locked-up” in the business and management ignoring the problem, as they concentrate on doing the next deal (irrespective of its impact!). We understand the sentiment. We all tend to gravitate to our areas of preference – “I do sales”, “I’m just an engineer”, “I run logistics” etc. Collecting the cash is just a process.

The question is ... who is responsible for making this process work, and what are the consequences if it doesn't? In the latter case - quite possibly -

alternative employment! Irrespective of the size of the business, this most important area is often handed over to junior personnel, whilst the senior managers get on with doing the “real business”. Fine, if it works, but all too often it doesn't, so what can be done?

No matter which business sector we are involved with, the number one issue is always time. “I’m too busy to look at problems in the billings department”, “Sorry, can't look at that problem today....or tomorrow.....or the next day.....” It's only when the problem turns into a possible catastrophe, usually initiated by a third party, that those empowered to resolve it will finally take notice. Unfortunately, it is not common for senior management to admit that they have a problem they cannot resolve. Part of the skill of management is recognising what you can and can't do, or, perhaps more accurately, what is/isn't worth doing yourself. A “cry for help” is not a defeat or an acknowledgement of inadequacy, it can simply be a question of bringing in the right people at the right time, even if their involvement is temporary. All businesses will experience turbulence at some point on their journey, and often there will be a need to invest in some external expertise to cure the fault. If the fuel injection system on your car was mis-firing, would you attempt to fix it yourself?

**There's never enough time!**

**Does it make sense to try and do everything yourself?**

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Time is always an issue when SPS become involved in such scenarios. Good management teams have systems that highlight problems at an early stage and involve the right level and quality of resource immediately. The more defensive management teams resist the problem and the involvement of external help, until the 11<sup>th</sup> hour, when they expect the cavalry to arrive.

SPS can't work miracles, but we do bring experience and clarity of thought to help guide you through the difficult decisions that have to be

**Get some help if you are in "the fog of confusion".**

made, to ensure the continued health of the business. After our involvement, some have

commented that this process has, indeed, been miraculous for them, compared to the "fog of confusion" they were experiencing. Most businesses can be saved/turned-around, if there is sufficient time and the right skills are applied to the problem. Our plea is to give us sufficient time. So if you are experiencing cash-flow difficulties, please pick-up the phone at an early stage, even if it is just for a chat to clarify the issue causing concern.

Such a call may be triggered through arrears of PAYE or VAT. For cash strapped businesses, these can often be left to the end of the list, as paying the Crown will not enable you to buy raw materials.

**Don't forget to pay the Crown!**

But pay them you must! The Crown lost their preferential status some years ago, but

this means they can be pro-active in collecting the debts due to them. Regional Crown offices will enforce the regulations, so it makes sound commercial sense to keep payments up to date. If you can't maintain payments, let them know what you are going to do about it. One useful piece of advice is to keep current payments up to date, so the amount of arrears does not increase. Delayed VAT payments can attract heavy financial

penalties, which will have a further negative impact on cash flow.

Another area to look at is the Court system. Creditors may resort to legal means to recover their debt, if all other avenues fail. If you are on the receiving end of a Statutory Demand, Winding Up Petition or Claim Form, make sure you keep up with the relevant dates that will result once action starts. You can begin to regain some control, simply by filing the right documents (e.g. a defence) with the Courts, on time. This may help you win your case or, at the very least, this action may buy you some precious time! If judgment is entered against you, there is little time to satisfy the debt – if you can do this, it will show on your record that the debt has been paid. If you feel judgment has been incorrectly entered against you, in certain circumstances you can apply for it to be set-aside. This is worth doing, but you must make sure you can prove you are correct. It can be a complex process, which may take up too much of your valuable time.

The answer is to ... "Make time your friend, not your

**Make time your Friend.**

enemy." Given our experience of such cash flow problems, our reputation with banks and other financiers, we can often create a little more time for a business to get its house in order. If this is not possible, then we have a great deal of experience in helping to negotiate a final settlement.

Whatever the circumstances, we can help you to put a strategy together to resolve the cash flow problem. The formula is very simple:

***The more time we have, the greater the chance of success.***

It's not rocket science, but it's not easy. Recognise what you do well and let us assist you in matters that you know are not the best use of your time.

Should you wish to discuss any aspect of cash flow management, please call your regional SPS office.