Cash Flow: The key to success

By Paul Jooste, commercial director, Coface, the international credit insurer

Cash flow difficulties negatively affect many companies' day-to-day operations. External stakeholders, such as banks, are looking for evidence that firms are actively improving their working capital by cutting costs and managing their inventory better before granting or extending credit. Cash flow has therefore become more critical than ever to a company's ability to stay in business and grow. As a result, effective cash flow and working capital management have become a strategic priority.

Cash Flow Projections

- Prepare cash flow projections for the next twelve months, next quarter and monthly. Start by adding cash on hand at the beginning of the period with other cash to be received from various sources. Know the amounts and dates of the required cash outlays for the period and more importantly, the cash inflows.
- Consider potential scenario's and plan for them. For example - if something happened and your predicted cash flow dropped x%, what could you do?
- Monitor your cash flow to forecast potential cash flow problems and take steps to remedy them.

Know your customer

A proactive and controlled approach to credit management is imperative.

- Cash flow controls should be evaluated by reviewing credit policies on an ongoing basis.
- Trade credit must be based on a formal document, such as an appropriate credit application form. Credit terms must be set at the onset and should appear in writing on statements and invoices.
- It is important to know the financial position of the company you are trading with.
- Investigation should include basic credit checks. For example - trade and bank references, and depending on the value of the credit facility, the client's business plan and financial statements. This can be handled by a credit insurer, or alternatively you can purchase information reports which generally contain the majority of the required

information on the debtor.

- Require all sales and financial management staff to know and follow credit policies.
- Regularly identify and address any possible early 'warning signs' which may trigger future payment problems, for example:
- Post-dated or dishonoured cheques issued
- Change in bankers or payment patterns
- Low stock levels or difficulties in reaching the debtor by telephone
- Signatories away from the office for long periods
- Lack of filing of accounts as required by the Registrar of Companies
- “Trust your gut”

A benefit of a credit insurance policy is that debtor payment trends are gathered from all policy holders. The credit insurer is therefore well placed to pick up early warning signs such as defaults or extended payment terms to one or more suppliers.

Managing your customers' credit is an important part of cash flow management. Weed out unprofitable customers, those that cost more to maintain than they add to the bottom line. Flag those who have a history of slow payment. Remember that you do not have to extend credit to anyone. If a customer has a history of slow payment, changing the credit terms or even eliminating credit entirely may be necessary.

The old saying is still true that the sales has not been made until the money is in the bank… and on time.

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