

Keep the cash flowing

It doesn't matter how much your business sells. If you can't pay the bills, you're bust. So how do smart firms keep the cash flowing?

The accidental philanthropist

Business people are often caricatured as grasping, two-timing so-and-sos, but take a closer look at the average small business owner and you may find he's generous to a fault. He lets other businesses finance themselves with his money, by paying suppliers early and not invoicing on time or chasing overdue payments.

He gives business to his competitors by not submitting quotations promptly or following up sales leads. He even loves his bank manager, and happily increases his overdraft because he pays for goods before his customers pay him.

Even when the economy is buoyant, such inadvertent philanthropy can be dangerous. According to BERR (the Department for Business, Enterprise and Regulatory Reform, formerly the DTI), 70 firms a day were going bust last summer, before the credit crunch really crunched. Many of these were viable businesses that had temporarily run out of cash. Now that we're facing the deepest recession in more than a decade, any business that doesn't maximise its opportunities, minimise its costs and fully understand its financial position is running a real risk of bankruptcy.

The bankruptcy trap...

As Lord Mandelson, the Secretary of State for Business, puts it in a series of BERR guides on cashflow management for small firms, 'Cashflow is critical to business survival, but all too often the day-to-day challenge of running a business... can mean losing sight of some of the skills for successful cashflow management'.

"One mistake small businesses make is only monitoring cashflow weekly or monthly instead of on a daily basis," says Kerry Bentley, Microsoft's SMB marketing manager. "You need to take time out of every day to send out quotes, do your invoices, chase overdue payments etc."

'Proper planning and monitoring of cashflow can help you avoid bankruptcy by spotting potential problems early, e.g. by negotiating longer payment terms with suppliers or arranging an increased overdraft,' says BERR.

But too many small firms have no means of telling what their financial position is. More than a million UK small businesses have no accounting systems at all, and nearly a million more use a mishmash of spreadsheets and other software that make up-to-the-minute analysis impossible. Lack of information breeds inefficiency. Companies pay bills too early, either because they can't remember their suppliers' payment terms or in case they forget to pay on the right day. They don't realise when customer invoices become overdue, so they don't chase them. Sometimes they go on selling to customers who haven't paid their previous bills.

"You'd be amazed how many small firms can't even remember how much they quoted for a job so they don't know how much to invoice for," says Gareth Arnold, head of Office Accounting at Microsoft.

...and how to avoid it

A good accounting system should be able to give you both the big picture and the fine detail. A single-screen 'dashboard' can act as a barometer of your business' health by showing key numbers such as cashflow and profitability, and flagging up potential problems (for example: you'll have to pay for a big order on Friday, but your customer won't settle the account until next week).

The system will tell you when supplier invoices are due for payment, and even pay them automatically on the day they're due. It will alert you when customer invoices become overdue and provide professionally-worded letters for chasing payment, with all the relevant information – customer's address, invoice number, order details, agreed payment terms etc – already filled in.

It will automate standard processes, saving you time and making your business look more professional. When you create an estimate for a customer, you can quickly produce a written quote based on a standard form or a previous quote, and e-mail it to the customer the same day – hopefully before your competitors even put pen to paper. If the customer accepts, the system can turn the quote into an order so you don't have to re-type the information.

As soon as you've delivered your goods or services, you'll need to invoice the customer. As BERR points out, 'Invoicing should not be seen as a back-office administrative nuisance. It is a vital first step in achieving healthy cash flow'. Your accounts system needs to handle this too – again using the existing contact information to save time and improve accuracy, both of which are vital in helping to ensure prompt payment. An e-mailed invoice can even include a one-click button enabling the customer to settle via PayPal.

Something for nothing? Now there's a good deal

To achieve good accounting practice you don't need to employ an accountant or spend a fortune on software. In fact you can download Microsoft® Office Accounting Express for free. It has most of the functions outlined above, plus extra features such as automating VAT returns and letting you track the margins on individual products or services to see whether you're making money on them. Again, Arnold says, "Many small businesses currently have no means of knowing what their margins are".

If you're a user of the 2007 Microsoft Office system, Microsoft Office Accounting integrates smoothly with your existing software. You can use Microsoft Office Word to send professional-looking quotes, invoices and reminders; Microsoft Office Excel® for detailed insights into financial information; and if you've scheduled an appointment in Microsoft Office Outlook®, you can click on the customer's name to see whether their payments are up-to-date. For those wanting to take it a step further there's also Microsoft Office Accounting Professional, which supports multiple users, multiple currencies, more detailed reporting etc.

"We understand that from nine to five, plumbers need to plumb," says Arnold. "They don't want to learn about accountancy or book-keeping, so we've made Office Accounting very easy to use. It's very task-driven, so that a quote becomes an order, becomes an invoice etc. And the look and feel is as familiar as the rest of Microsoft Office, so you can start getting value from it at once."

BERR Managing Cashflow Guides – www.creditmanagement.org.uk/berrguides.htm

Spend less, make more. Top tips for managing cashflow.

Andy Trish, Managing Director of NCI, a Microsoft Gold Partner, shares five top tips on how to cut costs without cutting corners:

- Travel less. Remote conferencing technology such as Microsoft Office Live Meeting lets you have a 'face-to-face' meeting with clients or colleagues without leaving your own office.
- Shrink your office. With broadband Internet and Microsoft Small Business Server, staff can be based at home and still have instant access to their e-mail and office-based systems; one of our customers cut its overheads by 40 per cent by reducing office space. Windows Mobile® enables similar access for mobile staff.
- Cut communications costs. Making phone calls over the Internet saves on call costs, and you may need to rent fewer phone lines. Broadband costs have plummeted recently, so make sure your package is still competitive.
- Save capital. Instead of buying hardware and software outright, consider a financing deal. Then you can pay for a new IT system out of the money it earns or saves for you.
- Improve efficiency. Microsoft's integrated software suite, including the 2007 Office system, Office Accounting and Business Contact Manager, can automate routine processes and avoid re-keying of information.

A case study: Improving cashflow at a bargain.

Duncan Reid is a partner at Icelantic, a six-person IT systems and support company based in Edinburgh. Until a couple of years ago the firm kept its records on a mixture of standalone accounting, spreadsheet and office automation software.

"The bits all worked fine, but there was no integration and it was very labour-intensive," says Reid. "We had products in one system, time and attendance in a second and invoices in a third. We couldn't issue invoices until the end of the month, and if we did a job that took less than half an hour it was hardly worth the bother of recording or charging for it.

"Then we switched to Microsoft Office Accounting. Because it integrates so well with other Microsoft software such as Outlook and Business Contact Manager, we now have one place to track all our interaction with clients, including work done, products sold, e-mails, meetings etc. Our engineers can accurately record any billable work in a couple of clicks, and as soon as the work is done I can produce an invoice on the spot. We find that the fuller and more accurate the invoice, the faster customers tend to pay.

"Microsoft software has definitely improved our customer service. We have excellent notes now, so we can produce fully-itemised bills, and if a client phones up and says an engineer was here yesterday, I can look up and see exactly what they did. If the customer wants a quote I can make sure it's in their inbox before they even put the phone down.

"As a business owner I want to keep a very close eye on cashflow, and Microsoft Office Accounting gives me an excellent overview with more detailed information whenever I need it. It alerts us to overdue customer invoices, which often means we can have a friendly word with the customer at once rather than having to send stern letters several weeks later. If someone phones up with a support query and we remind them they're behind with their payments, it's remarkable how promptly they pay up!

"Our suppliers usually give us 30 days to pay, so by invoicing immediately on 14-day terms we find that 75% of customers pay us before we pay our suppliers. We also reckon that Microsoft Office Accounting saves all our engineers half an hour a day in admin, meaning the firm can earn an extra £1,000 every month. As any Scot will tell you, that's a pretty good return from something that cost us nothing!"