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# INSIDER'S GUIDE TO MANAGING CASHFLOW FOR SMALL BUSINESSES

*Tried-and-tested tips for Sage Pay's successful startups to  
keep payments coming in and profit going up*

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Around half of new businesses fail. In 90% of cases, cashflow is the killer.

**Cashflow problems** don't just appear out of the blue; they **creep up on you** slowly. There are **10 telltale warning signs** for small businesses with cashflow issues. If you spot them early enough and **act quickly** enough, you can see them off before they take you down.

# The 10 telltale warning signs

## Recognize any of these?

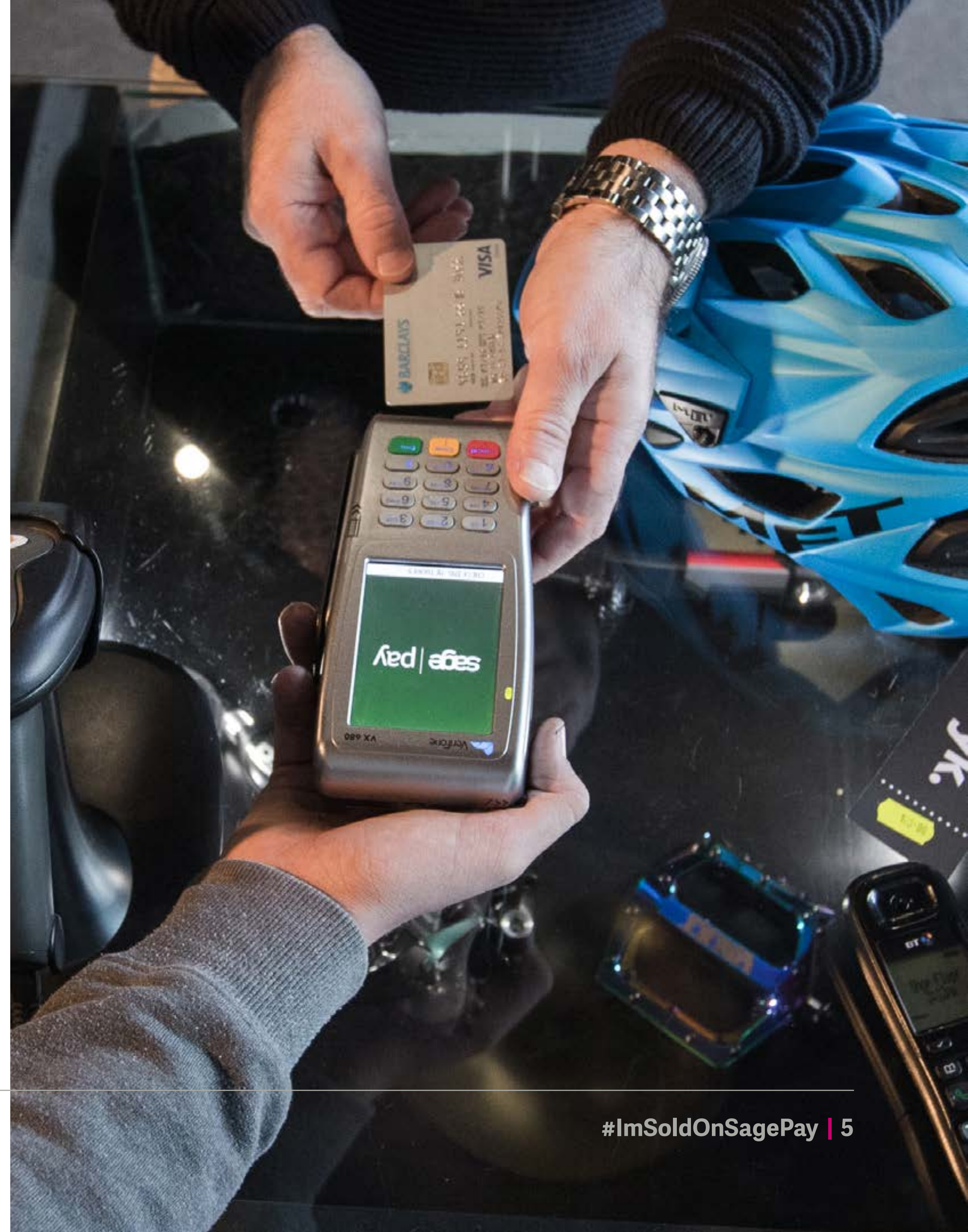
- You have to juggle things every month to cover basic bills or payroll.
- You've incurred late payment fines from HMRC.
- You frequently use post-dated cheques.
- Demand has dropped dramatically or raw material costs have shot up.
- You're building a credit card debt to cover daily expenses.
- You're reliant on one or two large clients.
- You keep waiting for a couple of big orders to come in.
- Your customers seem to be paying your invoices later and later.
- You're paying your bills later and later or missing prompt payer discounts.
- You don't have enough cash reserves to cushion you for two months' operational expenses.



At Sage Pay we help small businesses stay strong and stable by keeping the cash coming in. Get paid online, in-store, over the phone or via your invoices; our payment systems are easy to set up and run without fuss or fear of fraud.

**We've noticed that all** successful businesses have something in common—the ability to fine-tune the flow of funds in and out of their doors. And **whether you're a one-man band or a brick-and-mortar brand**, Sage Pay have the right tools: scalable, affordable best practice whatever your size.

Use this guide to find out what our clients do to **avoid cashflow crunch** and keep growing despite the killer odds.



Chapter 1

# Forecast your cashflow

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# Your forecast

As long as my business is profitable, everything's okay, right?

**Wrong.** The problem with profit is timing; it often turns up too late. The balance sheet for a swimsuit business might look rosy for June, July and August, but there are many salaries and suppliers to pay before then.

**What is a cashflow forecast?** A cashflow forecast is an estimate of your revenue and expenditure over a period time—most forecasts cover the next 3–12 months. Banks and other lenders will ask to see your cashflow forecast if you apply for a loan, but do one anyway—a cashflow forecast is a good way to stay on top of your finances, **plan ahead** for the difficult times and **avoid a cashflow crisis.**

**So how do I create a cashflow forecast?** A standard spreadsheet will do. You can find templates on the internet but it's not rocket science. Just follow these three steps...





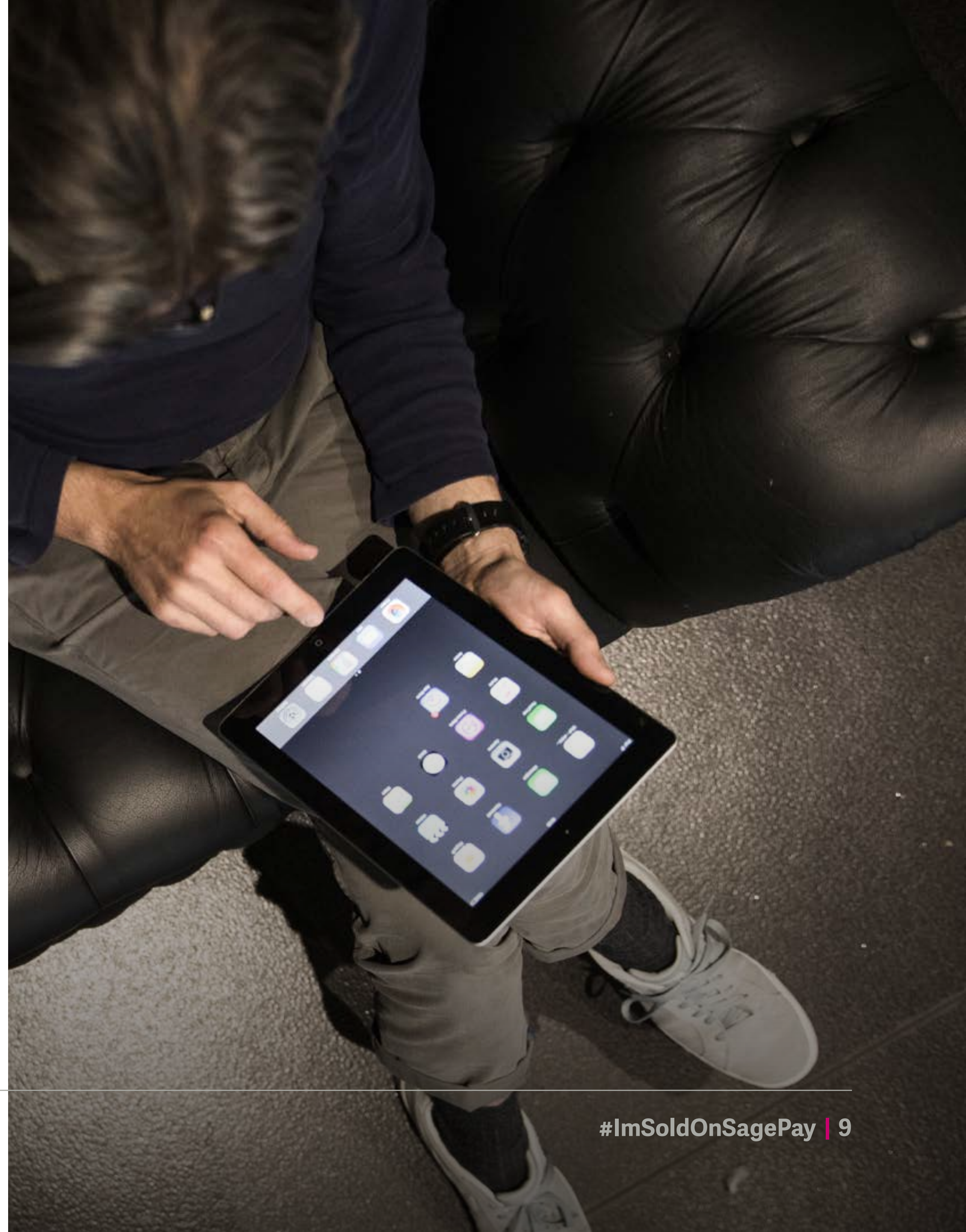
# 1. List all the money coming in

- List all the payments that will be coming in to the business over the given period such as sales, loans, interest and so on.
- Make predictions based on previous sales and current pricing. If you use Sage accounting software you can automatically transfer this data into your cashflow forecast.
- If you do not yet have previous sales to go on, be realistic and even cautious with your estimates; cashflow forecasts are no place for blind ambition and relentless optimism.
- Take into account any known factors that might affect your income, such as promotional activity boosting sales, competitor activity denting sales, seasonal variations, quiet/busy periods, the economy and so on.
- Calculate total revenues for each week or month.



## 2. Take away all the money going out

- List all the payments that will be going out of the business over the given period. There are usually more items under this column.
- Include rent, insurance, material costs, salaries (including yours), VAT, loan repayments, council tax, supplier costs, marketing, advertising, printing, travel and so on.
- Be meticulous and realistic on these estimates.
- Calculate a total revenues for each week or month.



### 3. And review your cashflow future

- Calculate the difference between your revenue and expenses.
- If it's a negative amount, you are expecting your expenses to be greater than your revenue in that period.
- If it's a positive amount, you are expecting your revenue to be greater than your expenses—and to deliver a profit—in that period.

**Now what?** Of course forecasting is essentially an exercise in informed guesswork. Actual figures will probably be different. But if you've been cautious and meticulous in your estimates, your forecast will be accurate enough to predict major gaps in your cashflow. To see how you can plug those gaps, read on.





Chapter 2

*Tighten your belt and seek advice*

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OK, there's a **cashflow problem** looming. Your first instinct is probably to reduce your expenses and **tighten your belt**. And you'd be right.

- Work out exactly how much additional cash you'll need and when. Then seek professional help from an accountant, business mentor or your bank manager. Tell them you're struggling and show them your cashflow prediction along with your up-to-date accounts.
- Research your funding options: bank loan, overdraft or equity-dependent assistance. You could sell off some fixed assets such as floor space, unnecessary vehicles or underused IT resources. You can always lease or hire replacements if you need to in future.
- Scrutinize all your purchases carefully; buy only what you absolutely need for the business. Make sure you're getting value for money and the best deals you possibly can. If you must make a purchase, consider a finance deal, hire purchase or leasing instead of buying with cash. Hang on to the cash you have—it's better to stay liquid.





- Review all your large prepaid annual bills such as insurance or accountancy fees. Can you pay monthly instead? There might be an additional cost involved, but you must weigh that against the cashflow benefit.
- If you're paying gas and electricity bills every quarter, switch to monthly direct debit where costs are averaged over the year. Big seasonal bills can play havoc with your cashflow; regular monthly amounts are more comfortable.

Even though cashflow has given you an **urgent problem** to solve, this can also be a **good opportunity** to take a long hard look at the big picture of your business: are your prices too high, why are sales so slow, **are you targeting the right customers**, are you using your time wisely?

Chapter 3

# Hidden sources of cash

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# Customers

**It costs** on average **five times more to acquire a new customer** than it does to encourage a repeat purchase from an existing one. So to stimulate sales sharpish, promote to your biggest fans and proven purchasers—your past or current customers.

Here are some things you could try:

- **Progress payments:** If you're a service business, ask if you can invoice for progress payments instead of waiting until the end of a project to invoice, and then waiting another 30 days for payment.
- **Cash only:** If you're starting a new business, consider establishing it on a cash-only basis to keep funds inside the business rather than lock them up in invoices.





- **Account customers:** If you offer an account/credit facility, ask customers if they would be willing to use their credit cards instead. They still get 30–55 days credit before having to pay, but you’d get your cash much sooner. You’ll need to pay commission but otherwise it’s almost as good as a cash transaction.
- **Promotions:** Offer a pre-season sale, member-get-member scheme, free delivery or a straightforward price promo (discount or BOGOF, for example).
- **Online:** Promotions online can get very quick results as long as you’re set up to take online payments. Sage Pay offers a flexible checkout form you can seamlessly integrate into your website.





*"I would recommend Sage . . . to everyone because it saves time and creates instant cashflow. It is nice to sell something and immediately get paid for it!"*

**Carrie Enders**

Office Manager, RE Suspension



*“One big advantage of Sage Pay for business owners is that you can log in online to see how sales are doing. Recently I was at Eurobike in Germany and I saw that sales were having a dip so I called my team to get them on social to boost sales. We’ve developed our own EPOS system but we plan to tie that in with Sage Accounts and their cloud software. That will mean I can see account and sales reports via my phone wherever I am in the world.”*

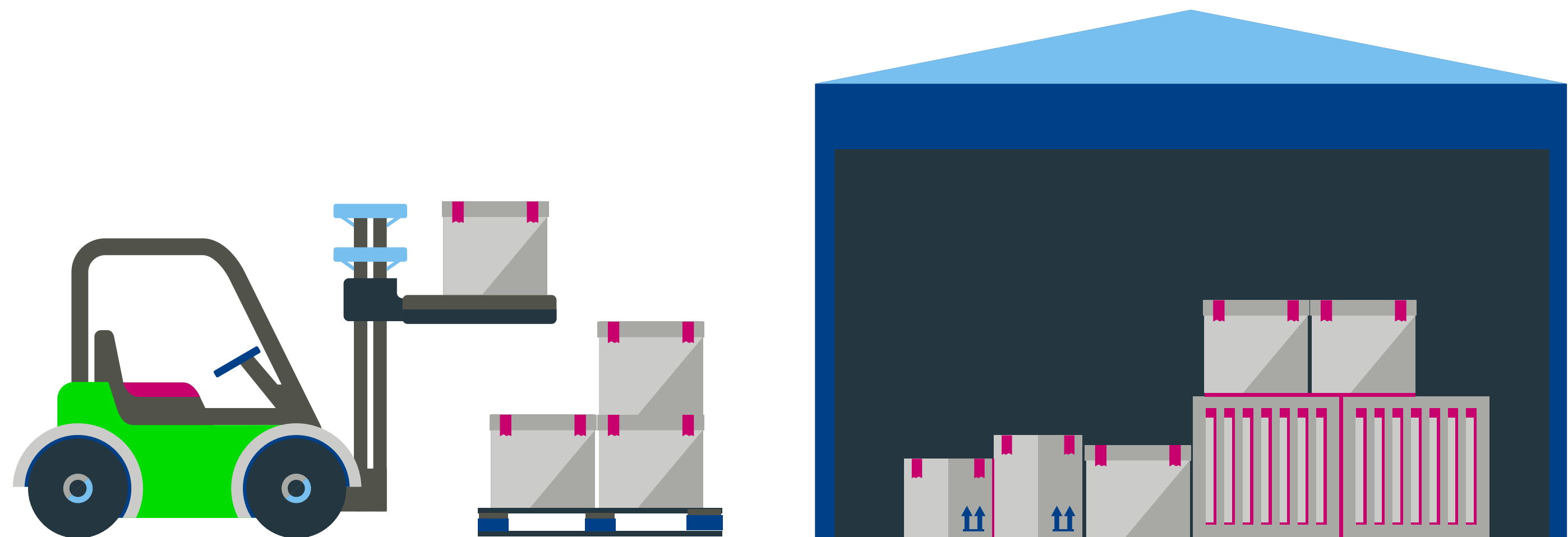
**James Heath**

Ubyk Ltd.

# Stock

**Stocking up to the right level is a fine art** and it can take new business owners some time to get it right.

The big **danger** is buying more than you need and finding that it **doesn't sell quickly** enough. Technically, it's still a bankable asset but not a liquid one, i.e. **you can't pay** bills and salaries with it.





- **Give it your attention:** Regularly review stock levels, stock turnover rates and purchasing policies.
- **The three basics:**
  - Don't keep too many items you can get from suppliers at short notice.
  - Don't have too many slow-moving items.
  - Make sure you're well stocked with your fastest-moving goods.
- **Get rid of stock:** Can you free up cash by having a sale? Offer heavy discounts on slow-moving stock items for a quick cash injection.
- **Take it back:** Ask suppliers if they'll take back some surplus stock. Be upfront about your temporary cashflow crisis and they might help you as a goodwill gesture to build a positive relationship.

# Suppliers

As long as suppliers are convinced **your cashflow problem is a blip** and not the beginning of the end, it's in their interest to keep you on side and **help you** stay in business.

- **Extended payment terms:** Ask for 60–90 day payment terms.
- **Friendly payment terms:** Ask for 'sale or return' terms—where you have to sell the items before you have to pay.
- **Instalments:** ask if you can pay in instalments rather than in one lump sum.
- **Discount:** Just ask for some money off your order. Don't be too cheeky.
- **Buying power:** Bear in mind that suppliers are more likely to be flexible if you're making a big order. Negotiate with them.
- **Goodwill:** Suppliers might be more understanding if you've paid them promptly in the past.





Chapter 4

*Get paid faster*

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*"The Pay Now feature is quick, easy and immediate. It's just like shopping online. There is no longer an excuse for clients who don't make a payment."*

**Helen McLean**

HH Accounting Services

# Make your invoicing snappier

- **Get invoices out promptly:** After all, they represent your future cashflow. The earlier the invoice date, the earlier your chances of getting paid.
- **Get them out earlier:** Send invoices out WITH orders not afterwards. If you're a service business, date your invoices from the day you completed the service rather than date you send the invoice.
- **Send invoices through Sage accounts:** When you send invoices this way you can add a 'Pay Now' link, allowing customers to pay at the touch of a button.
- **Ditch bad payers:** Avoid offering credit to anyone who's paid late in the past.
- **Remove any leeway:** Make your payment limits and terms crystal clear; "30 days from the date of the invoice", not 30 days from whenever you feel like it.
- **Reduce payment terms:** Consider reducing your payment terms to 14 or even 7 days for some your customers or for all new customers.
- **Large invoices:** Confirm large invoices have been received and before they fall due, call the client to check that there are no disputes that might delay payment.







*"The improved integration between Sage Pay and Sage One means that I can spend less time on business admin and more on making sales."*

**Lorna Syson**

Lorna Syson.co.uk

# Chase your debts

- **Make time to chase debt:** If you haven't got time to chase payments, get someone to do it for you. It's a business priority.
- **Overdue by one day is still overdue:** As soon as an invoice falls overdue, take action. Call the customer to check they were satisfied with the product or service they received or if they have concerns. This is a polite reminder disguised as quality checking and customer service.
- **Keep at it:** Make regular contact via email, letters and phone until the invoice is paid. Keep repeating the facts (the amount of debt, the date of the invoice, the invoice number). Make your letters and phone scripts firmer as the debt gets older. You could suggest a meeting.
- **Try someone else:** Try contacting the person who first agreed your contract or ordered your product; a personal relationship improves your chance of getting paid.
- **Reminders:** Send reminders in red ink or with OVERDUE stamped on them—it really helps command attention.
- **After 90 days:** The account is now more than three months overdue and you need professional help in retrieving your money. A letter from a collection agency will get most debtors to pay up, but these agencies can be expensive as they often take a sizeable chunk of whatever they collect. It might be worth biting the bullet and writing off smaller debts.





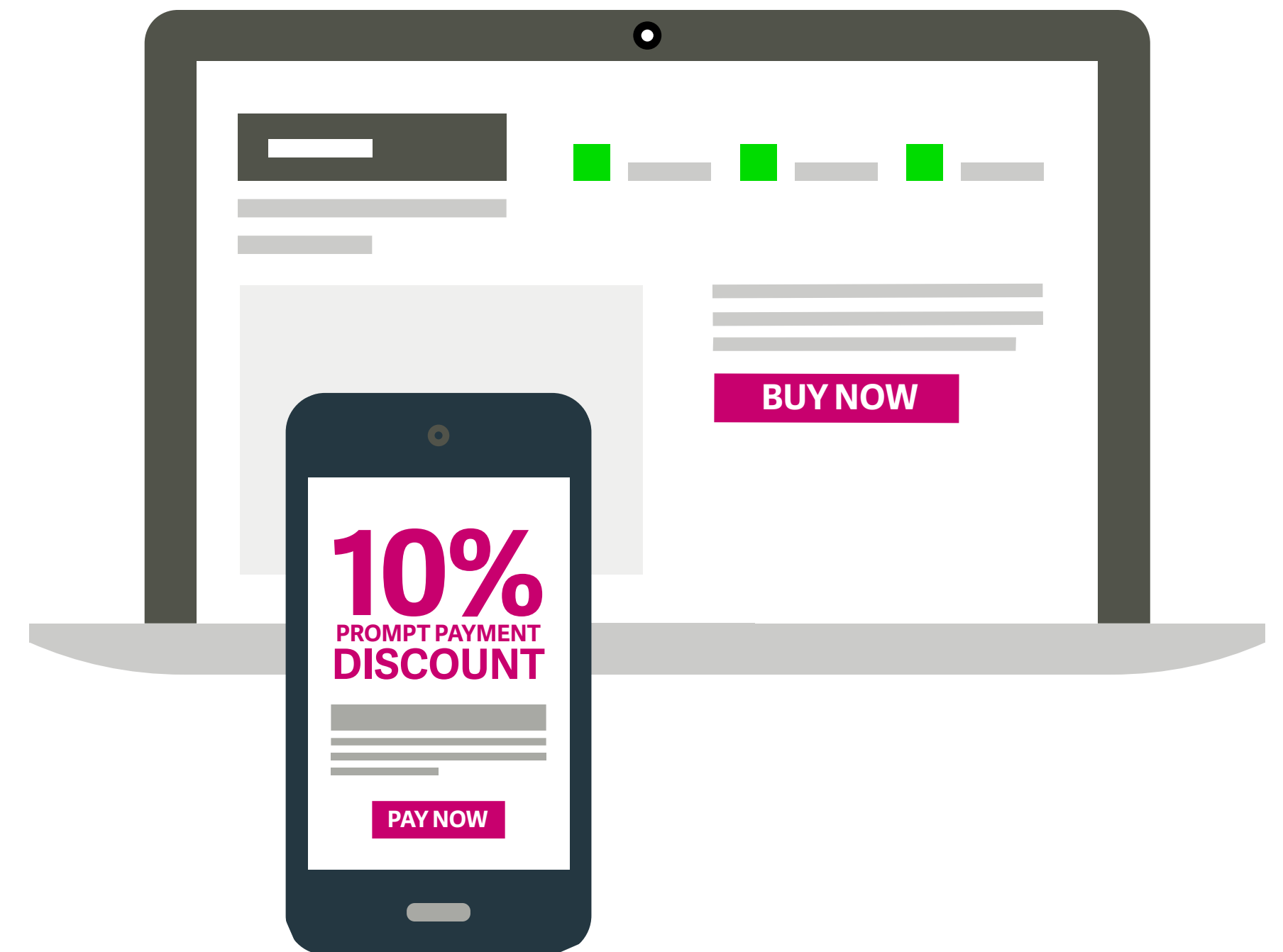
*"We've seen a significant decrease in late and irregular payments now that we use e-Invoicing from Sage. We have a more dependable monthly cashflow. The amount of time spent chasing payments has significantly reduced. Customers are able to pay on time because of the online system, and the flexible payment methods on offer."*

**John Jarvis**

Broom Leys Farm

# Encourage timely payment

- **Prompt payment discount:** Not necessarily a good option for low-margin businesses but high-margin businesses should consider offering a 5–10% discount for prompt payment. Work out whether the money you gain earlier is worth the discount you're offering.
- **Prompt payment incentive:** Offer non-financial rewards to prompt payers such as free delivery, free upgrades, priority booking, or advance notice of new products.
- **Increase your prices:** Tell customers you're putting up prices by a ninth (11.11%) but that you'll also offer a 10% prompt payment discount. So an item priced at £100 goes up to £111.11. Those who pay late pay in full. Those who pay early pay £100. So you either get paid more or get paid more quickly.
- **Use your promotional discounts differently:** If your main product has a list price of £2000, and you usually offer it at a reduced price of £1500, start charging full price but offer a prompt payment discount of £500. Add a note to your invoice that reads: "We'll take £500 off this invoice you pay by..." followed by a date 7 days from the invoice date.



# ABOUT SAGE PAY

Free up your cash flow with Sage Pay. Sage Pay offers affordable, flexible payment solutions to help small businesses get paid fast.

- Get cash flowing: Take payments smoothly and securely wherever you want: online, in-store, over the phone or via your invoices.
- Set up fuss-free and fast: Get up and running right now with our expert installation pack and user-friendly materials.
- Affordable pricing: Easy to budget with flexible, fully transparent pricing plans; no hidden charges and nasty surprises.
- Support when you need it: Fix teething problems and find answers fast with our 24/7 SME-focused, UK-based support team.
- Give customers choice: Increase sales by offering exciting payments options including contactless, Apple Pay and more.
- Advanced security: Reassure and convert more online shoppers with the same leading-edge anti-fraud screening used and trusted by the big brands.
- Grows with you: Seamless integration with Sage Accounting software means that when your business is ready to scale things up, it's all waiting for you.

We are Europe's leading independent payment service provider and one of the UK's most trusted payment brands. Every year Sage Pay processes 338 million secure transactions for 65,000 UK customers.

Find out how Sage Pay can help you pay, get paid and manage how your money moves. Visit <https://www.sagepay.co.uk/>

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To find out more about Sage Pay visit

[www.sagepay.co.uk](http://www.sagepay.co.uk)