

## Cashflow and working capital. Why Banks worry about fast growing businesses.

Sustainable businesses are businesses that have more cash in than cash out. Banks worry about cash flow because they know that loans are paid from cash.

Good cash management means the bills get paid and the business will still be around tomorrow. This article offers a few tips on how to keep that cash flow positive!

It's easy to confuse positive cashflow with a growing business and good profits, but sometimes the two don't go hand in hand. In fact, a rapidly growing business has a particular need for good financial and cash management.

This is because the demands of a growing business are normally reflected in rising overheads some of which cannot be paid on similar terms to the terms the business offers its own clients. E.g. overheads often include rent (which must normally be paid on time), wages (which must be paid when due) and such items as power and phone (utility companies tend not to be receptive to ongoing requests for longer payment terms).

All this means that the money flows rapidly out of the growing business. On the other hand if the business offers even 30 days terms to its customers, the income will be received after the expense must be paid. The bigger the business gets, the more money is involved.

### What to do about it?

The simplest solution, often not commercially practical, is to only offer shorter terms for payment. If this won't work (because, for example, your customers would leave and go to a competitor) consider the following ideas:

- Offer discounts for early payment (as an incentive).
- Accept credit cards that offer valuable points and promote the benefits of these to your customers.
- Request deposits for large orders for new clients.
- Get some working capital finance.

I mention the finance option last, although the most common solution, because it is also usually more expensive.

If you find the working capital finance is running out, there are 5 common reasons:

1. You're growing again (see above)
2. People are paying you more slowly
3. You are paying your bills more quickly
4. You are drawing out money for some other purpose
5. You are making less profit

Item 1 we have addressed above. Item 2 is easy: identify the problem and use more rigorous collection/billing practices. Item 3: Don't be so enthusiastic. Don't pay late, but take advantage of the terms offered to you. Item 4: investigate and fund the purpose some other way, and 5: Figure out why and take action to correct.

All these steps require basic up to date figures and a willingness on the part of the manager to engage with them regularly.

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Remember, it's not just important to work in the business, the manager must also work on the business

Positive cash flow is worth the effort; it makes your business sustainable (and keeps your banker happy).