MODULE 8

Managing your cashflow and finances

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The 3 key elements of your cashflow

Understanding your cashflow

Managing your cashflow

Improving your cashflow

Understanding your cashflow…

- **Definition**: Cashflow is the movement of money in and out of a business.
- Cash received represents inflows and cash spent represents outflows.
- Cash flow refers to the net balance of cash moving into and out of a business at a specific point in time.
- Cash flow can be positive or negative - Positive cash flow indicates that a company has more money moving into it than out of it. Negative cash flow indicates that a company has more money moving out of it than into it.

Understanding your cashflow

➢ Cash flow can be further broken into three major categories:

1. **Operating cash flow:** This refers to the net cash generated from a company's normal business operations. In actively growing and expanding companies, positive cash flow is required to maintain business growth.
2. **Investing cash flow:** This refers to the net cash generated from a company's investment-related activities, such as investments in securities, the purchase of physical assets like equipment or property, or the sale of assets. In healthy companies that are actively investing in their businesses, this number will often be in the negative.
3. **Financing cash flow**: This refers specifically to how cash moves between a company and its investors, owners, or creditors. It's the net cash generated to finance the company and may include debt, equity, and dividend payments

Managing your cashflow…

- ➢ Managing your cash flow is all about figuring out when you’re going to have cash in your business, figuring out how to get more of it in the business faster and how to manage your spending so you don’t run into cash flow problems.
- ➢ Learning to manage cash flow is a foundational building block for managing your business finances. Once you’ve got that down, then you can start thinking about how to really grow your business, improve your margins and profit and grow a healthy business.

Managing your Cashflow

➢ **7 Effective ways to manage your cashflow:**

1. Stay on top of bookkeeping – It is the single best way to understand all the financial transactions in your business and you can't do the rest of the steps without it.
2. Generate cash flow statements - If you have an accountant, they can do this for you. Otherwise, you can use software (Absa Cashflow manager or Quickbooks) or calculate it yourself using spreadsheets
3. Analyse your cash flow - Take the data from your cash flow statements and use it to understand how money is moving through your business.
4. Figure out whether you need to increase cash flow - If you are fully relying on your business credit card or lines of credit to make ends meet the these are signs you need to free up more cash flow.
5. Cut spending where you need to - Overspending cash can result either from covering unnecessary expenses or paying for expenses at unstrategic times. Cut overspending to increase cash flow.
6. Speed up your accounts receivable - Whether you're waiting on invoice payments from clients, or deposits, the faster you get money in your pocket, the more cash flow you'll have.
7. Rinse and repeat - Make analyzing your statements a regular part of your back-office routine. The more you do it, the better you'll get at spotting opportunities to increase cash flow and nip shortages in the bud

Improving your cashflow…

1. Send invoices out immediately - Sales and invoices are the lifeline of a small business, so the quicker you can send out invoices, the quicker you can get paid.
2. Get Customers To Pay Invoices On Time – Follow-up with Invoice reminder, Consider offering a discount to customers who pay their invoices before a certain time, Charge A Late Payment Penalty and Consider invoice factoring.
3. Increase Prices - If your cash flow is poor, it may be time to consider increasing the prices for your products or services. If your prices are too low, you may be selling yourself short. Ask yourself the following questions:

- ➢ What are my competitors charging?
- ➢ Has the prices of inventory or equipment increased?
- ➢ Do my prices compensate for the time put into creating the product?

Improving your cashflow…

4. Expand your market - Diversify the business by adding a new product or service, create a new marketing strategy, encourage customers to buy more (rewards/loyalty programme).

5. Re-evaluate operating expenses – Cut out unnecessary expenses, streamline your processes, purchase more efficient equipment and ask suppliers for bulk inventory rates.

6. Liquidate old inventory - Inventory is one of the largest business expenses you might encounter. You need inventory to make a profit, but you want to make sure the inventory you're buying is actually selling.

7. Pay your suppliers/creditors on time - Be strategic about when you pay your suppliers, if your supplier offers a discount for paying early, be sure to pay in the required time to save some money. If the supplier doesn't offer a discount, pay when it's most favourable for your business.

Improving your cashflow

8. Open a business investment(savings) account - This account will allow you to save surplus funds are earn interest as well. This is a simple way to generate a bit of extra cash, and it's a smart way to ensure you always have a cash flow cushion for your business.

9. Consider Business Credit Card - Using a business credit card can be a strategic way to manage your expenses, as long as you use the card wisely and can afford to make regular (if not full) payments each month.

10. Apply for an overdraft or small business loan – The overdraft will assist in bridging the gap between when payments are made(money outflow) and when funds are received(money inflow). The business loan can be taken out for the expansion of the business or even the purchase of equipment.

Techniques to effectively collect bills

- Set out clear payment terms with your debtors, ie. 30 or 60 days after invoicing.
- Get paid faster by using mobile payment solutions , ie. mobile merchant device, e-commerce payment gateway.
- Ask for deposits or partial payments on large orders or long-term contracts
- Develop a system for follow-up calls by recording all contact times and commitments made and then make those follow-up calls regularly. If you don’t do this, it’s easy to forget about debts and, ultimately, may lead to writing those debts off.
- Get commitment from the debtor when they will honor their payment to your business and ensure to follow-up to pay on this committed date.

How to effectively manage your cashflow with your business banker

- ➢ Make your banker a stakeholder in your business – regular meetings, strategy planning (short and long-term objectives).
- ➢ Do a cashflow projection - Use the projection to anticipate slow periods and plan in advance what to do about them with your banker.
- ➢ Finance big buys instead of draining cash - Use your cash flow projection to plan your financing needs ahead of time, not in the midst of a crisis, when bankers may be wary to lend
- ➢ Be completely honest - let them know about the challenges more importantly
- ➢ Communicate regularly

Absa Cashflow Manager

Features:

- ➢ Generates reports that track all monies owed by customers and to suppliers
- ➢ Generates a simple cashflow report that will assist with all budgeting decisions
- ➢ Allocates all expenses and income for all bank statements and business cash transactions
- ➢ Converts a quote to an invoice at the press of a button
- ➢ Provides simple staff payslips and generates payroll schedules to assist with SARS compliance

How to apply:

- ➢ Must have an active business bank transactional account and digitally active on Absa's Online Banking system
- ➢ If you're an existing customer contact us on 0800 227 592, Select option 2 for Business Banking and follow the prompts

Quickbooks: Cashflow Planner

- ➢ The Cash Flow planner is an interactive tool that forecasts your cash flow, the money going in and out of your business. It looks at your financial history to forecast future money in and money out events. You can also add and adjust future events to see how certain changes affect your cash flow/
- ➢ You can change events in the planner without affecting or changing your books. This helps you make informed decisions about when to save, spend, borrow, and transfer money.
- ➢ The cash flow planner chart uses historical data from your bank accounts connected to QuickBooks Online to forecast future recurring income and expenses. This includes categorised and uncategorised transactions
- ➢ Link: https://quickbooks.intuit.com/za/

Questions?

Thank you - any questions?


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Lionesses of Africa
Unilever
WOMEN ENTREPRENEURS
START-UP
ACCELERATOR
PROGRAMME
It's your time to shine!
ANTOGRACE
MORE THAN JUST FOOD
SENSATIONAL CLEAN & LONG-LASTING FRAGRANCE
NEW IMPROVED
Sunlight
2in1
Hand Wash Powder
Sunlight
LEMON 100
Sunlight
FABRIC CONDITIONER
Sunlight
SOAP