

Making cash flow



You may have the sales coming in, but if you don't have the cash to back it up, investing in kit and even paying staff can become impossible, says *Alex Blyth*

"Poor cash flow is one of the main reasons for business failures," says Bibby Financial Services chief executive David Robertson. "Without cash, it is impossible to purchase raw materials or new equipment and pay staff wages. Anyone who runs a print firm should be concerned with their cash flow."

Despite such stark warnings, print bosses often don't have enough time to worry about cash flow. They are too busy delivering jobs, managing staff and pitching for future work.

But as Robertson points out, good cash flow management is key to a successful business and the rule of thumb is that

prevention is better than cure. The first step to preventing cash flow problems is to plan ahead, according to Koreen Twydel, partner at business adviser Fresh Approach Accountancy. "Begin by preparing a cash flow forecast. This sounds complicated, but is simply a projection of all income and expenditure that is expected for the year. If this shows that you will run out of cash then you need to take action."

The simplest action is to increase income and reduce expenditure, but in already stretched businesses, this is rarely possible. Instead, you should focus on improving your credit and debit terms. Basically, this involves getting money in from your clients more rapidly and paying it out to your suppliers more slowly. If you can get these flows working in your favour, then you can improve your cash flow.

TOP TIPS | MANAGING CASH FLOW

Loretta Fairley, head of marketing at finance provider IGF, offers these tips on how to manage cash flow:

- 1 Prepare cash flow projections. An accurate projection can alert you to trouble well before it strikes
- 2 Ensure invoices are correct before they're sent out
- 3 Develop a good process for chasing up invoices
- 4 Tell potential customers about your credit terms before you provide your product or service
- 5 Negotiate advantageous credit terms with suppliers
- 6 Look out for bad debt
- 7 Build relationships with your customers
- 8 Don't always associate higher sales with better cash flow. If large numbers are on credit your accounts will increase but not your cash
- 9 Consider using an invoice finance provider
- 10 You may be able to raise cash by leasing back assets

Negotiating terms

The best time to negotiate credit terms is at the beginning of the relationship. Typically, print firms find it more difficult to agree good terms with clients than with suppliers. They are operating in an extremely competitive market and so want to sign new deals as quickly as possible. Yet it is essential to consider cash flow before signing on the dotted line.

You should always run a credit check on clients, and ensure you are not swayed by the promise of future business into offering credit to a client with a poor credit history. Then try to secure payment terms of within 30 days. Bear in mind that, if you are trying to improve your cash flow, early payment will probably be worth more to you than a high price for the job.

You should also ensure you invoice on time. It is remarkable how often busy print firm managers forget to invoice for work they have done. For printers that fall into this bracket, buying software that automates the invoicing process can →



be a godsend. Simon Kearsley, managing director at accounting software provider Symmetry, explains: "Some financial management packages, such as bluQube, have job-costing systems that automate the debt recovery process."

Software can help, but you must also have an effective process for chasing debts. Karl Williams, head of debt recovery at Manchester law firm Pannone, says: "Never be afraid to ask for money. Establish a series of letters and phone calls that will eventually lead to the instruction of solicitors or debt recovery agents. Good credit control should aid cash flow."

Lastly, you should consider stock control. David Bunker at Close Print Finance says: "Excess stock is just cash tied up in the warehouse. Other things being equal, try to hold as little stock as possible. In cases where you have to hold stock, make every effort to get your customers to pay or part pay for it."

CASE STUDY STUDIO PROJECTS

London-based Studio Projects is a 12-strong litho printer of newsletters and marketing materials for charities and institutes. Director Deryck Cheyne says: "Cash flow is crucial. Margins in the print industry have been so eroded that we have to constantly focus on cash flow."

Five years ago, the firm's client base was made up predominantly of book publishers, and it was having so many problems with late payments that Cheyne took the decision to move into the charity market. "Charities only spend money when they have it, so we know when we invoice for a job the money is there," he explains.

Cheyne recalls it was a difficult time and they had to terminate several relationships, but he says: "It's better to have a small turnover that is producing cash than a large turnover and many 120-day bills still unpaid."

In the past two years, Cheyne has begun to use Bartercard, a system through which companies provide each other with goods and services in return for Bartercard points. He says: "I was initially sceptical, but it's been brilliant. You wouldn't want too much of your work to be for points rather than cash, but we've now built up enough points to buy equipment such as plates without having to spend any money."

"Companies needn't go bust because they are losing money, but they will if they run out of cash"

Peter Hopkinson, Chalvington Press

The best ways to manage cash flow are to increase sales, reduce costs and ensure you are paid faster than you pay. Yet even firms that do this brilliantly can find themselves facing problems. They may have had a dip in orders a few months ago or they may be waiting on payment for a big order from a reliable client. They may need to buy equipment to deliver a job that will transform their fortunes.

Bank loans

In these situations, they need to raise finance. Bank loans are the obvious first port of call, but banks are notoriously wary of lending to resolve cash flow difficulties. There are, however, other options. Two and a half years ago, Lauren Displays in Aylesford needed to raise cash for new equipment. It went to IGF, an invoice finance provider that specialises in SMEs.

IGF buys invoices at up to 90% of their value and charges an administration fee of between 1% and 3% for collecting payment on those invoices. It delivers cash within 24 hours of buying the invoices. Lauren managing director Tony Gray says: "IGF has really made a difference to the way we finance our business. As we have grown, IGF has partnered with us and helped us deal with the changing needs of our business."

Another option is asset finance. Lloyds TSB Commercial Finance corporate development director Ian Byers says: "A major step in successful cash flow management is to bring on board an asset-backed lending specialist, as a funding partner, to work with the business. These lenders quickly release the value tied up in machinery, stock and property."

Finally, a new service called Wageroller pays your staff's salaries for two months. Peter Hopkinson, chairman of Hampshire-based Chalvington Press, says: "Print firms tend to lose money over December and January and Wageroller has been useful at helping us iron out the cash flow trough."

Hopkinson recalls that when he started out he was given a piece of advice that has stuck with him: "Companies needn't necessarily go bust because they are losing money, but companies will go bust when they run out of cash."

Even if it does not result in business closure, poor cash flow can still be damaging. As Lucy Edwards, marketing director at Dartford-based print firm Howard Hunt concludes: "When cash flow becomes a problem, it can start to run your business. Directors spend all their time focusing on it to the detriment of long-term growth plans. It's far better to manage it every day and stay on top of it so it never becomes a problem." ■

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