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## **CASH IS KING**

Article prepared by Ian Munro March 2006

Don't let anyone else tell you differently. Large companies go under with full order books. Getting and maintaining a tight control of incoming and outgoing cash is absolutely key to all businesses.

In the Link Management Group Business Turnaround Practice Area there are three key areas in Finance that we look at initially;

- cash management
- debtor or creditor ratios
- review of borrowing arrangements

Here are some basic tips on Cash Management. A few years ago I would have been apologising for writing such basic tips, but Link has worked with a number of larger businesses with turnover in excess of £20 million who just do not have the basics in place.

### **1. Do not wait until it is too late - start doing something now**

Cash is the lifeblood of any business. If it is haemorrhaging find out which part of the business is the prime culprit and so something now!

### **2. “Cash Is King”, but do your staff know?**

Do your staff realise how key cash is to the business. For example, are sales personnel aware that no sale is complete until the goods/services have been paid for? Do those responsible for procurement get alternative quotations? Do your accounts payment colleagues pay supplier invoices on their terms or to your terms?

### **3. What exactly is your Cash Balance right now?**

Both large and small business accounting software packages have excellent cash management tools. We worked with a client recently who was using a five year version of Sage. The investment to upgrade to the latest version with enhanced cash management tools made an immediate impact on cash management. It paid for itself based alone on the reduced overtime to the accounts department due to previous antiquated systems.

Clients who use large systems are often at fault because the Accounts department does not keep senior line managers updated on the impacts on cash of their areas of the business.

The most competent managers and successful businesses are vulnerable if cash balance information is out of date.

#### **4. Keep your purchase and sales ledgers up to date.**

I can here you say “that doesn’t apply to us”. I am not a betting man - well not a successful one – but in Link we have seen large and small companies improve in this area by looking at their internal processes and literally knocking days off the time taken to process purchase/sales data thereby improving their projected cash flow knowledge

#### **5. When did you last review or audit your processes?**

Are the processes you think are in place running as they should? When did you last have a review? How often do you receive a print out showing your debtor and creditor days and ratios? When did you last read such a report if you get it?

#### **6. Knowing the bank balance is not managing your cash.**

Frightening I know, and I shudder when I see businesses doing this. How many bosses say “what’s the bank balance today?”

Just do not even go there – the message is that simple.

#### **7. How far forward do you forecast your cash balance?**

So often we hear the comment “Our business does not run that way, it is impossible to forecast cash requirements.” I can tell you that the business that says that is about to hit the iceberg.

If you have an annual budget projecting sales, costs of sales, gross profit, overheads, bank and interest charges on a monthly basis then you can project your opening and closing cash positions.

If you disagree with this please phone me, my number is in the “Contact us” section. In fact please phone my mobile as you have a rather urgent problem!

#### **8. What if I see a problem with Cash Flow on the horizon?**

Almost every business I have ever been associated with has a cash flow challenge from time to time. This includes major multinationals. So, if you are a small business you are not alone!

A recent client said “Oh I think we can weather the storm, we don’t want to start borrowing from the bank”

There is nothing wrong in having a borrowing facility with the bank, better to have that than go under. It is the underlying cash controls that will prevent the short term borrowing becoming a long term situation. Too often poor internal discipline and controls – see point 2 above – lead to bank borrowing being a substitute for poor cash and business management.

## **9. Put Cash Management onto your daily “to do” list**

If you are a leader in your business, then make sure your new found enthusiasm for Cash Management is passed on to your colleagues. Make this as much an item for discussion in meetings and general discussions as “How are sales” or “Have these parts arrived yet?”

If you are seen to be giving Cash Management a priority, so will your colleagues.

## **10. Strong cash management frees up time to run a successful business.**

Hopefully everyone recognises by now that Cash Management is one of the ingredients of running a successful business.

Too often we see serious management time being spent fire fighting customers and suppliers because of cash problems caused by poor Cash Management. Get back to the good days of running a successful business in the knowledge that effective Cash controls are in place.

### **NEXT STEPS:**

Now is the time to act, while your corporate “health” worries are still treatable.

See the LINK offer of a two/three day review at the start of the Business Turnaround and Improvement Practice Area.

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