

Tips to increase business cash flow

Your business started with a great idea, but you need cash flow in order to grow. How can you increase your cash flow when you're facing capital expenditures; operations, facility and labour costs; as well as research and development and marketing costs?

Below is a Q & A with Alan Long, who is the CFO & EVP Operations of a medium-sized business where he oversees all financial operations. He was formerly a principal at Coopers & Lybrand (now Price Waterhouse Coopers) in the debt recovery and corporate restructuring department. Alan has a Bachelor of Commerce degree from Acadia University and is a qualified Chartered Accountant. Here's what he had to say about increasing cash flow:

Q: Why should you start with a business plan?

A: A business plan is a must. It's a road map for the company. It shows where you intend to go, then becomes a tool to measure your progress against. A business plan is also required to obtain financing from sophisticated investors.

Q: How can you identify and approach potential investors?

A: Before determining who to approach, you must be clear what the investment is for and be prepared for the demands that investors may impose.

Companies without a proven track record may be most successful approaching friends or family for working capital. Alternatively, you can look to [angel investors](#), who provide venture capital funds for start-ups or entrepreneurs. These are best found through personal networks, your accountant or lawyer, and referral services.

As the company advances, venture groups, become an option. All these groups have Web sites, but a personal introduction can be advantageous. And don't overlook your existing clients or suppliers, who are already familiar with your company and may recognize its opportunity for growth.

Q: What other documents do you need to supply to investors?

A: Although it depends on the investor and amount, you should provide as much information as you're comfortable with. Show investors you know what you're doing. At a minimum, most require a business plan, historical financial statements, financial projections, and legal information showing proper authorization to conduct business.

More sophisticated investors require information on clients, suppliers, inventory, intellectual property, important contracts, key employees, and legal matters.

An exit strategy is almost as important as the business plan, investors want to understand how you intend to provide a return on their investment. It could be through an initial public offering (IPO) of your company's shares, a sale of the Company or through subsequent financings.

Q: What are your obligations to these investors?

A: Determined primarily through the agreements you sign at the time of the investment, certain rights to information may also be governed by law. Most investors require regular financial statements and ongoing business plans. Many include protective provisions in a shareholders agreement that protects their rights. As an example, you may require their approval before issuing new stock or options or obtaining a bank loan.

Q: Why is it very important to establish a good business credit history?

A: Building a good credit history is key to obtaining better terms or future financing through banks, leasing, or suppliers. Use your good credit history to negotiate favourable interest rates and longer payment terms. Be aware of different financing options such as short-term loans and lines of credit to offset cash flow issues.

It can offer you some leeway from current financing sources if you experience a crunch. Strong supplier relationships can be just as important as strong client relationships.

Q: What are the advantages of leasing versus owning?

A: Leasing can provide advantages depending on your circumstances. It may help cash flow, provide an alternative when other forms of financing are not available, and offer some tax advantages. To decide whether leasing is a good option for your company, I recommend consulting your accountant who understands your company's financial situation.

Q: Where should you focus first to improve cash flow management?

A: The most important aspect of cash flow management relates to the billing cycle. Many entrepreneurs are great at selling and developing or delivering their product and service, but don't spend enough time pricing, invoicing and collecting because it's out of their comfort zone.

Pay attention to the complete cycle. It's no use negotiating favourable terms if you send invoices out a month late or don't bother to follow up on receivables.

Instead of invoicing at a project's completion, consider billing instalment payments at the end of each month or milestone to match your cash flow needs.

Revise the payment terms for your firms – 30 days receivable terms vs. 40 days payable gives a business 10 days of interest-earning opportunity or more room with cash flow. Be aware of your vendors' late payment charges policy.

Q: How can an accountant help?

A: An accountant can be a valuable resource, but it's important to find the right one. In the early days of your business, the ideal person would be someone who can provide practical advice as well as prepare tax returns or complete year-end statements. They can help you structure your business and set up an accounting system that not only delivers meaningful financial statements but provides meaningful management information. Their knowledge of accounting practices, tax filing and other government regulations can also help ensure your books are up-to-date and accurate in the event of an audit.

As your business goes into a growth cycle, you may need an accountant who can help you streamline operations or make decisions around launching new product lines or services, purchasing equipment, expanding to multiple locations or acquiring other companies, and investing your assets.

Keep an eye on the bottom line

Proper cash management is the best strategy for growth. The three keys to success are:

- Managing your assets and controlling any liabilities.
- Reducing costs while increasing income.
- Raising additional capital or refinancing the business with terms that your company can affordably repay.

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