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# Managing your business cash flow



**S**uccessfully managing your business cashflow is essential for the survival of your business and for its future growth. Every business needs good cashflow to be able to meet its commitments and pay its expenses on time. There's an old saying in business that "Cash is King". Cash is the lifeblood of any business, it is the fuel that keeps your business engine running, and without it, that engine will soon stop. Without

cash coming in, real profits are just an illusion. Many businesses that appear to be profitable each year when the annual accounts are completed, has gone broke because they have not got the basics right of getting more cash in than cash going out.

Basically there are two types of cashflow:  
**Positive cashflow:** This occurs when the cash coming into your business from sales, accounts receivables is more than the cash

going out of your business through accounts payables, expenses, wages etc.

**Negative cashflow:** This is the reverse, when the cash going out of your business is greater than the cash coming in. Not a good position to be in.

Unfortunately many transport operators can't predict the future, especially when it comes to things like unforeseen maintenance, like a major engine failure requiring total

replacement. This can quickly make a \$50,000-plus dent in your cashflow. They also can't be certain that their customers will pay their invoices on time.

It's important that your business reduces the time gap between when you pay for expenses and when you receive income, the smaller the gap the more cash you will have available to pay for your regular business costs. Transport operators have to provide a service to their customers before being paid, to be able to make a profit. It is critical that you have control over your cashflow so that you are in a position to pay staff and suppliers before you have been paid by your customers. If you can't do this then you won't be in a position to provide service to your customers, or to make a profit.

Don't confuse cash in the bank with being profitable. Making a profit is when your business earns more in a year's trading than it spends on expenses. Many businesses will make an end of year profit, but still have times during the year where it is struggling to have enough cash to cover its expenses.

Preparing a 12-month cashflow forecast can help you to think ahead in your business. It can help you to look at how much you may need to borrow, and at how much cash you will require each month. Accurate cashflow forecasts are usually a requirement from any lending institution. It's important that your forecast is based on realistic information, not on wishful thinking. An accurate cashflow forecast will help you to identify in advance any potential shortfalls in your budget.

Your cashflow forecast should identify all your business income sources and incoming cash amounts, along with all your outgoing cash expenses. Your forecast should have an opening and closing bank balance to track progress. You probably don't need an accountant to produce a cashflow forecast, but certainly getting regular professional advice is advisable. Most businesses nowadays will be operating an accounting software package like XERO or MYOB, both of these are great, as they can help you to produce an accurate cashflow forecast.

Your cashflow forecast should be reviewed and updated regularly, as your circumstances

will always be changing. A cashflow forecast should not be a one hit wonder, but should be integrated as part of your normal business practices. Waiting until your accountant has completed your annual tax return is not the time to find out if you are financially viable.

Some transport operators see growth as a solution to their cashflow problems, only to find that as they have grown this has made the cashflow situation even worse as they did not have the basic principles under control before they expanded the size of their business.

Improving your cashflow management procedures is the first step. You should be:

- Keeping accurate and up to date records

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- Invoice accurately and promptly
- Include payment terms on all invoices, along with your internet banking details
- Bank any manual payments immediately
- Keep accurate records of customer payments, this will help you to track slow payers
- Have a robust credit policy
- Agree payment terms up front with all new customers

- Conduct credit checks on new customers
- Review credit terms with customers who are slow to pay eg. put them on a cash only basis
- Consider prompt payment discounts and penalties for late payments
- Issue reminders as soon as a payment date is missed and follow up immediately
- Review your payment terms with suppliers
- Talk to your suppliers to see if they will offer a discount for prompt payment
- Pay your suppliers promptly, they are more likely to provide you with favourable terms
- Consider leasing rather than buying for major assets
- Use your overdraft for cash shortfalls rather than further borrowing
- Considering factoring debt to improve cashflow
- Review your debt structure to ensure that is structured for the lowest cost to your business

If your business has seasonal peaks you will need to adjust your cashflow forecast to match your trading conditions. Any surplus cash generated during peak trading periods should be kept in an on call bank account to be used as a reserve fund for quieter trading periods. It is also prudent to talk to your bank, armed with your accurate cashflow forecast, to make sure that you have an appropriate overdraft facility that matches your business requirements.

If you have a cashflow problem, it is important that you act immediately. Seek professional advice. Many people are too embarrassed to seek help when it is needed, and leave it too late. Talk to your financial advisor, finance provider, and accountant. Be sure to share your cashflow and business forecasts with them. Break any bad news promptly. Explain what you are doing to solve the problem, and don't make any unrealistic promises. Have you got a trusted business mentor you can call on? If you need to give NZ Trucking Association a call please do. We can help, we regularly review transport businesses on behalf of our members, and can provide good common sense advice based on our extensive industry knowledge. ■