

MANAGING MONEY

Looking after the cash

in and out of your business



firstport
Doing Good Business

It's a sad fact that the majority of businesses fail, not because they're based on a flawed concept, or even because they don't have enough customers, but because they run out of steam due to a lack of accessible cash!

For social entrepreneurs this can be especially crucial. It's easy to focus on the social impact of projects and count success in terms of value for volunteers, reductions in poverty or environmental benefits, but if you don't keep a careful eye on the money, your days will be numbered and no matter how strong your ethics, the valuable service you provide will fizzle out before you have a chance to say 'added value'.

Many finance courses like to teach the intricacies of financial management and accounting, but at new start level it all comes down to the bare bones: can you afford to live a normal life and will you have the money to pay for the things you need to develop your product or service?

For this reason, this booklet focuses purely on cash – how to access it, to make the most of it, and most importantly, how to turn it into a vehicle for even greater social impact.

What is cash?

What do we mean by cash?

When we talk about cashflow, 'cash' isn't just the five or ten pound notes and loose change that you find when you empty your pockets or dig into your wallet, it's any available money you can use to buy equipment, pay staff or pay the bills. Cash comes in a number of forms:

- ✘ Loose coins and notes
- ✘ Any credit in a bank account
- ✘ Unused overdraft or short term loan overdraft

In business terms, cash is money that is easily accessible and allows you to buy in the items and service needed to run the business.

Why is cash so important?

Projected turnover for the future is irrelevant if you can't operate on a day-to-day basis due to lack of cash. You may have bagged a major contract, be on course to make a significant profit, or waiting for approved funding to arrive, but without cash, your business will grind to a halt. For this reason it is imperative that there's enough cash in the system to keep the wheels turning.

keep → → →
the wheels
turning

How much will I need?

People either often completely overestimate what they will need at the start, so make sure you don't budget for things you won't need till later. At the other end of the scale, if you're applying for grants, remember that you only have one shot, so make sure you list everything you will need – you won't be able to go back and ask for more later.

- ✘ Make a list of everything you think you need
- ✘ Write down the assumptions your list is based on
- ✘ Challenge and test yourself. Are specific items essential? Could you start your business without them?
- ✘ Distinguish between what you would like, and what is absolutely necessary

It's impossible to list specific 'wants' and 'needs' here since every business has individual requirements, but make sure you list both tangible and intangible resources. It's often easier to spot the tangible, or physical, things like staff and equipment, than to identify the intangible or abstract ones like insurances, licences or national insurance contributions, but the intangible are just as essential to running your business.

Making cash work

Sadly, few of us have access to unlimited cash supplies, but actively managing the cash you earn can make it go a lot further.

- ✘ Starting with the basics, the longer the cash stays in your bank account, the more accessible it is. In practice, this means getting money in fast – invoice as soon as you can – and holding onto it as long as possible. Of course this policy is dependent on relationships. If you use preferred suppliers, circumstances or goodwill may over ride the usual rule (and it's worth remembering that goodwill is a two-way street).
- ✘ Ensure a specific individual is responsible for credit control and makes regular checks on how much actual money is in the bank and when invoices are due. No one likes asking for money, but

a swift response to overdue payments can make the difference between a healthy business and insolvency.

- ✘ Assess whether potential customers are reliable payers before you ship goods or services
- ✘ Don't underestimate how long it could take to translate services from customer to cash; in other words, the length of time from point of sale to cash in the bank. Some contracts stipulate payment for services in arrears, which can mean a long wait for payment. You may wish to try and re-negotiate terms if possible when negotiating the contract.
- ✘ Question the value of buying in particular goods or services and see if you can negotiate better terms.

VAT invoice

If you are registered for VAT, then whenever you supply goods or services to someone else who is also registered for VAT you must give them a VAT invoice. You must not use a VAT invoice if you are not registered for VAT. You must register for VAT if your annual SALES are over a certain amount (over £68,000 as in March 2010) or above but you can register even if your sales are under this amount.

A VAT invoice must show:

- an invoice number which is unique and follows on from the number of the previous invoice – if you spoil or cancel a serially numbered invoice, you must keep it to show to a VAT officer at your next VAT inspection
- the seller's name or trading name, and address
- the seller's VAT registration number
- the invoice date
- the time of supply (also known as tax point) if this is different from the invoice date – see the section below
- the customer's name or trading name, and address
- a description sufficient to identify the goods or services supplied to the customer

If you make retail sales and you make a sale of goods or services for £250 or less including VAT you can issue a simplified VAT invoice.

If you need to issue a sales document for goods or services you haven't supplied yet, you can issue a 'pro-forma' invoice or a similar document to offer goods or services to customers.

If you are using grant money or are a registered charity, VAT and Tax is important to consider. VAT relates to SALES income and registered charities have tax benefits.

You can find out more details on billing and invoicing on the Business Gateway web site.

Systems for success

A few simple systems in place make it easier to keep track of and, crucially, help you to get your hands on cash faster. Don't forget that cash is the building block behind all the good work you're trying to achieve. And after all, you are running a business, so don't be shy about asking for payment.

To manage your cash better:

- x** Make it easy for people to pay you – whether payment in cash, cheque, or by bank transfer is more appropriate depends on the size of the transaction and nature of the customer's organisation, but make sure you operate the system they request.
- x** Consider special deals such as discounts for fast payment or ask for payment in stages rather than lump sums.
- x** Reflect on whether you can ask for up front payment. This type of system is often more commonly practiced during periods of economic downturn. It is also common for service such as training for example.
- x** Keep accurate records and make sure that anyone dealing with cash knows how to use the system – you don't want to face any nasty surprises when bank statements arrive.
- x** Put one member of staff in charge of credit control. If no one's responsible, everyone will think someone else is managing it.

cash → → →
is the building block

Paying out

Every business needs a core level of equipment, staff time and support but before you buy, question the necessity of each purchase. Do you just want it, or do you really need it? And when exactly will you need it – this week or in three months' time?

If you decide that your purchase is a necessity, research suppliers and find the best quote. Once you've found the best deal, go back to the other suppliers and see if they will match, or beat it. Price differences can all depend on hidden extras such as delivery costs, so if they won't drop the price, they may be able to provide benefits such as extended warranty in kind. If necessary, don't forget to budget for VAT on top of the quoted price.

Getting the best deal can save a business large sums of money, but only if the value of the purchase justifies the time spent on it. It's not worth saving yourself £5 on a ream of paper if it takes you 2 hours to negotiate!

Often it can make more sense to lease equipment, even if in the long term it seems cheaper to buy. Think of buying a house or a new car – few people would consider buying one outright. In the same way, starting a business will call for substantial equipment costs early on, which may be reduced by spreading the burden through a lease.

getting
the best
deal → → →

Using spreadsheets

Spreadsheets may seem daunting for non-technical managers, but it's well worth overcoming your fears. The advantages of getting to grips with managing even a simple spreadsheet are numerous.

Spreadsheets offer straightforward solutions to:

- ✘ **Working out the implications of changing circumstances.** If things don't go to plan you can automate consequential calculations. For example, if your cash projection shows sales that don't materialise, you can quickly alter spreadsheets to show the implications.
- ✘ **Scenario planning.** Once you've mastered the art of template making, you can quickly adapt the original to illustrate best, worst and mid-point scenarios.

- ✘ **Summarising company figures for trustees or board members.**

Spreadsheets are cheaper than buying a dedicated accounting software package such as *Sage* or *Quickbooks*, which may be too advanced for the early stages of a small business. They are also now so widely used that to many, not employing a spreadsheet could be seen as a danger sign, showing that you're not really in control of the finances.

If the idea still leaves you quaking in your boots, then take heart. Templates are widely available online, but Firstport offers additional assistance to show the basics and how to apply them to your business.

Cash projections

Broken down to the basics, a cash projection shows you how much money you will have, and when it will be coming. It's key to working out in advance whether you will break even, make a profit, or record a loss.

Sitting down to write your first projection might be intimidating, but remember, you make cashflow projections all the time in daily life; you'll make decisions based on how much money you have in the bank and when the next pay cheque's due.

The most important thing to consider when you make a cashflow projection is how much money you will need, and when. Work through each calendar month and make notes; if your business is struggling, it might be necessary to work on a week-by-week basis.

Most projections will show peaks and troughs, especially if the business revolves around

a particular time of year or is dependent on specific weather, like outdoor activity centres or local food growing. If you know you will experience a peak, followed by a trough, you can plan ahead in the same way that many people do over Christmas when they are paid early but then have to wait till the end of January for their next cheque.

If your customers include statutory bodies it may be beneficial to provide capacity for additional projects in March, traditionally a time when organisations need to make use of underspend money before the end of the financial year.

And finally, it's good to have something left over for contingencies, such as vehicle repairs or staff cover. Always plan for the predictable, but where possible, try to allow for unpredictable cash demands.

Help! I'm running out of money!!

Planning ahead's all well and good, but sometimes, despite the best-laid plans, things just don't work out. The sooner you realise you might be heading for trouble, the sooner you can take action and hopefully steer your business through to calm waters, which is why effective cash management is crucial.

Do you know why you've run out of money and whether or not the crisis is salvageable? If it is, will you be able to make changes to the way you operate to make sure it doesn't happen again?

If you're still able to provide your product or service, then it's time to focus on getting more cash in; if not, then you'll have to reconsider your business model, sadly dissolve the business and try to take it as a lesson learnt before moving on.

If you do have debts, then you need to be aware of whether or not you are insolvent. It may be possible to access emergency credit, either through your own personal finance or helpful sources, but it is important to remember that trading while insolvent is illegal. The consequences in terms of personal liability will depend on your status (eg sole trader, limited company etc) and whether you were seen to be negligent.

If you escape closure or insolvency by the skin of your teeth, a certain amount of soul searching will be necessary. Sailing so close to the wind is acceptable, but it may be a sign that changes need to be made. Do you think you can make those changes, and if not, can you cope with the stress of teetering on the edge?



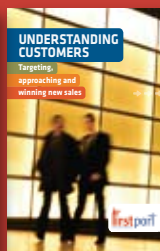
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SCOTTISH GOVERNMENT

GET INVOLVED!

Firstport provides free business support and awards to new-start social entrepreneurs throughout Scotland.

Further booklets exist in this series. Template worksheets have also been developed to work in conjunction with this booklet, which can be found on the Firstport website.

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