Cash Flow Issues?

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Most of you have probably heard the old adage "cash is king" when it comes to business. This doesn't relate to cash in hand style work or some tax dodging scheme. It relates to the need for cash flow management to ensure you have the money to pay your bills.

There are a number of business leaders out there that, at the first sign of trouble, preach to novice business people that they need debtor finance. For those that don't know, debtor finance is basically a loan advanced against your accounts receivable. Depending on your circumstances this can be a handy tool. However, it does not work for everyone. If you only have a few clients or your main client isn't paying, this won't help your business and if you're already in financial trouble then most debtor finance providers may not offer you a facility.

Rest assured though, if you are facing cash flow issues there are other options available.

The first step is to work out what type of trouble you are in. Do you have a short term or long term problem? Has your collection timeframe blown out? Are you facing a downturn in the market? Did your major client go down? Are you spending more than you are earning? There are a multitude of reasons which can vary from industry to industry and from business to business. Remember not all businesses are run the same. So it may be worthwhile discussing this with an expert that can help you get to the root cause of your issue.

Once you have identified the issue, you need to consider the appropriate action. This can vary as well, depending on the issue. If you have a lag in receiving payment from your customers then maybe debtor finance could work or you may consider a change in your collections policy such as discounts for quicker payments. This is good for those that need the money faster than it is being collected.

On the other hand you may be spending too much relative to what you are earning or your major client isn't or can't pay. This is unfortunately becoming a common occurrence. Let's say your major client has just gone into liquidation then it is unlikely you will be paid in the short term, if at all. This isn't fair but unfortunately you need to play the hand you are dealt. When things outside of your control occur you should consider your options as soon as possible. The sooner you address the issue the more likely you are to be able to ride through the storm. This could involve borrowing, downsizing, restructuring or even just compromising with creditors. The most common creditor I see this with is the Australian Taxation Office who regularly enters into payment plans with businesses.

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The Australian legal environment allows for informal and formal arrangements to address and facilitate corrective actions against cash flow issues for businesses including companies, partnerships and sole traders. With companies this involves informal workouts and the more formal voluntary administrations and deeds of company arrangement. With sole traders and partnerships this can involve personal insolvency agreements.

In essence these types of arrangements allow a business to address cash flow issues under the control of an insolvency practitioner. These types of arrangements allow for restructuring your business as well as binding your creditors to an agreed payment plan or compromise. However, creditors need to approve these. So if you are in trouble you should consider speaking to an expert as early as possible to improve your chances of survival.

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