



Spreadsheets for Business by Gordon Clark

Why Spreadsheets Are Important

Cash flow forecasting or cash flow management is a key aspect of any business management.

Cash Flow Planning

Planning future cash requirements to avoid a liquidity crisis

Cash flow forecasting is important because, if a business runs out of cash and is not able to obtain new finance, it will become insolvent.

Cash flow is the life-blood of all businesses especially, new start-ups and small enterprises. As a result, it is vital that management forecast or predict what is going to happen to cash flow to make sure the business has enough to operate with.

Quite often very good business's run out of operating capital, this situation can be avoided with proper financial management, knowing what is going to happen ahead of it actually happening can be the difference between staying healthy or going in to insolvency.

How often management should forecast cash flow is dependent on the financial security of the business. If the business is struggling, or is keeping a watchful eye on its finances, the business owner should be forecasting and revising his or her cash flow on a daily basis.

However, if the finances of the business are more stable and 'safe', then forecasting and revising cash flow weekly or monthly is enough.

Fire Fighting or Fire Prevention

Early action to avoid cash flow problems is vital, if a business has to approach it's bankers for additional borrowing then, this needs to be done in some cases at least two months beforehand, there is absolutely no credibility in last minute panics..

A responsible lender will want to know three things, **how much is required, when it is required and how long will the additional borrowing be needed for.**

The person within the business responsible for obtaining funds will need to support the request for additional cash with sound cash flow forecasting.

Naturally, there are many other factors to consider such as, what can the business do to avoid shortfalls, for example, is it possible to collect outstanding invoices more quickly, can suppliers give better payment terms perhaps, invoices due in 30 days may be deferred for payment to 45 days or 60 days, adjustments can be made to the cash flow forecast which may well show the situation has improved or been solved altogether.

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Knowing where a business has been and where it is going is the key to success, accurate spreadsheets will also show where a business is hemorrhaging money.

Top 10 Tips To Improve your cashflow

1. Make a current audit

Prior to improving cashflow, you will need to know what your current cash situation is. Look at accounts payable (money due to suppliers) and receivable (money owed from sales), value of stock. At this point it's important to detect any imbalance between cash out and cash in to your business.

2. Invoice customers in a timely manner

Make sure you are on top of your invoicing for work done and goods supplied, it is vital to send invoices out on time, faster you invoice the faster you get paid.

3. Make it easy for customers to pay you

Ensure each invoice has a date it is due for payment either on receipt, 30 days etc, monitor your due dates and enable various payment methods such as Bank to Bank.

4. Pay attention to payments

knowing when you are likely to be paid, makes it so much easier to manage payroll and accounts payable. Customers often have their own patterns, learn and consider this when planning your finances.

5. Discounts for quicker payment

Some large cash rich companies pay for their entire admin costs by obtaining discounts for fast payments. Assume you give a 5% discount for payment by a certain date. You can build this effectively in to your cashflow.

6. Make sure you have a policy on credit

Having an understanding of your cashflow could put you in a position to extend credit to your best customers, enabling you to accurately predict payment dates.

7. Good collections policy

Efficient collection of outstanding accounts is very important, make sure you have a policy and try to stick to it. Don't take risks with slow payers, do your due diligence remember you might well need a debt collection agency in extreme cases.

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8. Making payments to suppliers

Keep an eye on payments due out of your business, unless you are cash rich pay invoices on or around the due date. Early payment might lead to cash flow shortfalls

9. Extended payment terms

If you have a good relationship with your suppliers, and at a time where you might have a cash flow issue ask to spread payments or extend due dates. Long term relationships really help at this time.

10. Over stocked

If you have a good forecast you will see ahead and be able to plan stock levels in accordance with your sales. Often business's find that they are over stocked and a lot of cash is tied up. Keep an eye on stock levels.

Benefits of spreadsheets

There is an overwhelming need for any small to medium business to have a clear overview of performance for present, historical and for the future .

Trends in sales can be easily identified along with peaks and troughs, cash requirements can be met to ensure employees and suppliers get paid.

Business's can monitor fixed costs also, the effects of increases in cost of sales and close monitoring of cash flow and stocking levels.

Having financial information should be the basis of sound management decisions, business viability and sustained growth.

Start Up business's

Anyone planning a new start up will need a business plan and a best guess sales and profit forecast, this will be required for external funding.

When we say "best guess" we mean a wish sheet or predictions, simply because, at start up we can only hazard a guess of how long it will take a business to open the doors and start to make profit, in some cases this may take some months however, it should be assumed that the owner has done quite a lot of homework in advance, for example..studied the competition, undergone extensive market analysis. Depending on the actual business model, established who the customers are and what the market will stand in terms of price points.

Building a start up spreadsheet

The almost guaranteed aspect of start up is going to be the overheads or fixed costs such as rent, energy, communication and staffing. Next, will be the sales predictions and cost of sales from start to at least 12 months ahead, collectively the information will show profit and loss.

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Once the business or venture is running the spreadsheet can be updated from forecast to actual, in the early days updates may be undertaken on a daily or weekly basis, when the honeymoon period is over monthly updates should suffice.

Key reasons why a cash flow forecast is so important

- Identify potential shortfalls in cash balances in advance. Think of the cash flow forecast as an "early warning system". This is, by far, the most important reason for a cash flow forecast.
- Make sure that the business can afford to pay suppliers and employees. Suppliers who don't get paid will soon stop supplying the business; it is even worse if employees are not paid on time.
- Spot problems with customer payments. Preparing the forecast encourages the business to look at how quickly customers are paying their debts. Note: this is not really a problem for businesses (like retailers) that take most of their sales in cash/credit cards at the point of sale.
- As an important discipline of financial planning. The cash flow forecast is an important management process, similar to preparing business budgets.
- External investors such as banks may require a regular forecast. Certainly, if the business has a bank loan, the bank will want to look at the cash flow forecast at regular intervals. (Source www.wikipedia.org)

Note from the Tutor Gordon Clark.

You don't have to be a business owner to use knowledge gained from my tutorial, spreadsheets can be put to work to provide useful information about a whole range of topics such as, producing graphs for a project or presentation..household budgets and personal planning.

I sincerely hope you enjoy what you will learn on the course and that knowledge will empower you to great success and peace.

脚踏实地 literally means "to step on solid ground."

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