



## CASH FLOW | Managing payments the critical factor

# Profit no certainty that firms survive

### FRANCES STEWART

MANAGING cash flow is critical for business success.

When not managed properly, even successful businesses can have serious financial problems or face insolvency.

Institute for Factors and Discounters chairman Peter Fitzpatrick said it was possible for a business to be profitable but fail because it could not meet outgoing payment commitments.

"This is a classic cash-flow black hole," he said.

"With proper planning, they could have identified the looming cash-flow deficit and would have had time to arrange suitable ways to fund their cash flow."

National Australia Bank state general manager for business banking Richard Hockney said that many businesses failed to realise the risks of incorrectly managing cash flow.

"It is often difficult to predict when you will need to fund temporary short-falls in cash for things like stock, wages and other expenses," he said.

"Incoming cash for these costs is not always there when it is required."

Oracle Lending Solution's Angelo Benedetti agreed.

"The key to maximising your chances of securing finance is to ensure your financial house is in order and then seek expert advice," he said.

There are a number of cash-flow management options that give business owners access to the funds they need.

Mr Hockney said one of the most common was a business overdraft.

"For most enterprises, a standard business overdraft is a good option to consider," he said. "A business overdraft will allow you to access funds up to an agreed limit from a cheque account, which gives you the flexibility to draw money as you need it."

Financial institutions or brokers can provide companies with a wide range of overdraft options that eliminate some of the risks associated with cash-flow problems.

On an overdraft, a company only pays interest on the money it actually uses.

Another option is cash-flow finance, which allows a business to have invoices for its sales assigned to a bank for collection, said Mr Benedetti.

Meanwhile, insurance premium funding helps control cash flow by spreading the cost of premiums over the year.

### SECURE FINANCE

- Have your financial statements in order and up to date.
- Work out your financial needs, both business and personal, to survive in a slow business period.
- Have a clear understanding of your tax structure.
- Use an experienced and trusted banker or finance broker.
- Shop around. Most banks can only offer their products while a broker can offer a wide variety of options from different financial institutions.