Empty pockets? Top 4 cash management tips for franchisors

In the current climate and liquidity in the economy tight, good cash management is of paramount importance to SME's. Adrian Price explores the principles of good cash management for the franchising sector.

There are a number of steps that can be taken to ensure that the best possible outcome is achieved when it comes to cash management. Here's a summary of the main areas to consider: credit control, supply chain management, cost control, reporting and bank products.

1. Credit control

Let's start with the basics. Develop a credit control policy that sets out the terms of trade, credit limits, proof of delivery (if you deliver something), collection terms and, a process to follow-up slow payers. There is no point in setting a limit of £1,000 with payment due after 30 days if you then allow a customer to run up £10,000 of debt over six months, it is a bad debt waiting to happen. Collecting debts once billed is equally important.

Run credit checks on all new customers. If someone has not paid other suppliers there is a good chance they will not pay you either. If you have any doubts then request payments upfront. Additionally, always agree an invoice in advance (no one likes surprises) and then push for payment when due. It is not personal its business common sense, if the product/service has been delivered as agreed then payment is due.

2. Supply chain management

Clear supply chain management is an art, but the basics of good buying need to be put in place. Agree terms in writing, use early settlement discounts, check invoices to see if billed as expected but also beware of contract terms and penalties. In addition push for volume retro deals and consider the impact of over reliance on a key supplier and how non performance might affect you.

3. Reporting

Reporting procedures are also key. If you are not capturing the right information to start with you cannot do a comparison of budgets and expectations. Budgets and cash flow forecasts are not just for a bank manager to file in a drawer, they enable you to control cash and determine where there is, or is not, headroom when cash gets tight. If you know where the pinch points are you can hopefully manage them, rather than just ringing your bank manager on a Friday asking for more money or to extend your limit.

"Plan ahead for the next year..."

There are specialist consultants looking at cost control and number of overheads, such as: telecoms, stationary, motor, and utilities all lend themselves to a review to secure better pricing without sacrificing on quality. There is no point in driving down insurance cost if you find you no longer have effective cover for that unforeseen event.

4. Bank products

Consider the range of products available from banks. As well as loans and overdrafts there is asset finance, confidential invoice discounting, hedging products, currency exposure products, debt insurance and many others. Ask your bank manager to fully explain the range and how they might reduce risk, improve cash flow and enhance returns.

Finally, consider a few other areas like mitigation of tax liabilities covering corporation tax, VAT and PAYE. Good planning at the outset can reduce or change the timing of liabilities to your overall cash flow. Do not overlook areas such as grants, apprenticeship schemes, and incentives which generally may benefit you.

It is important to set up the correct processes to help manage financial planning effectively. Plan ahead for the next year and identify any potential issues that may arise so that action can be taken to avoid any downturns. Effective cash management will help to stabilise your business, as well as ensure you are in the best position to take advantage of any upturn.

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