

ABi's series of 'Fact Sheets for Retailers' provide concise information on the key topic areas that impact on business success within the retail environment. Each fact sheet highlights the key issues and provides practical advice on the given topic.

If you would like any further advice on any issues relating to this fact sheet then please contact us. We will be delighted to help.

ABi Associates Limited is recognised by clients, businesses and agencies as one of the country's leading business development companies. We have over ten years of experience and expertise in providing business support to small businesses to succeed and grow.

Today's fast paced, competitive and chaotic consumer world provide a multitude of challenges for retailers. ABi offer a diverse range of unique, innovative and tailored business services to meet these challenges. These services include business diagnostics, training, sign posting, market planning, specialist consultancy and networking events. What ever your business challenge, we will show you a way of meeting it effectively.

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## Cashflow management review



### Planning to stay in business

Poor cash flow can cause otherwise strong businesses to fail. Good profits in a month when you have a lot of expenditure won't necessarily be enough to keep your shop afloat.

Unless you manage your cash flow professionally, you might be paying more than necessary in interest and charges and not earning all the interest you could.

### Managing to stay in business

Managing your cash flow means forecasting and monitoring the flow of money payments into and out of the business. It doesn't include what is owed to the business or by the business.

Retailers have the advantage of usually purchasing on credit while getting paid in cash. But this does not mean that retailers can be complacent.

In reviewing your management of your cash flow, you should ensure that you include:

- cash from sales (and your collections from credit accounts)
- the inflow of new finance
- the outflow of expenditure (overheads, salaries, stock, equipment)
- Tax and VAT payments
- Return on investment

Prepare a forecast of the inflow of cash from sales over the coming year. You can use your previous year's figures to guide you. Depending on your business, you can make monthly or weekly forecasts.

Prepare a forecast of outflows of cash during the coming year. Include overheads (rent, utilities, etc), salaries, stock, equipment, tax/VAT payments, loan repayments, dividends, professional fees, advertising, etc.

These forecasts should enable you to plan to enough cash in the business to meet the payments. You can plan ahead to avoid bottlenecks. Working on these forecasts also brings items of expenditure sharply into focus so that you can review whether you are getting the best deal.

It doesn't help to be over-optimistic. If you identify difficult trading periods (because of holiday periods, seasonal slumps) then you can plan how to deal with them. You might need to review your financing arrangements to make sure you can cope with any bad periods.

Lenders will want to see a cash flow forecast before they make a decision about providing finance.

Of course, predictions of what will happen in the future get less reliable the further away they are. Unforeseen factors, changing fashions, the actions of competitors, changes in the economy and natural disasters can all interfere with your plans.

This means that you should monitor your actual cash flow monthly and amend your forecasts accordingly.

Experience gained from year to year will help you to make more effective forecasts for the coming months. Analyse the reasons why actual cash flow differed from your forecasts.

You should restrict the growth of your business to what you can afford and make sure your projections include an amount for contingencies.

### **“Out of Stock”**

One of the signs of poor cash flow management in independent retail outlets is empty shelves. 'Out of Stock' is one of the main reasons why people fail to purchase in convenience stores - along with 'Couldn't find' and 'Not stocked' (source ACS Survey).

You should try to integrate your cash flow management system with the stock control system so that, if money is getting tight, you don't run out of key products while you have a storeroom full of slow-moving stock.

### **Computer-based systems**

These days there is a huge variety of computer-based systems for small business financial management. You may have already moved to a new-technology solution but, if not, you should be thinking about it. You should be able to find a system that suits your business.

The great advantage of computerisation is the speed with which you can update your forecasts and see what happens to your forecast if, say, your sales didn't match expectations.

There is great advantage in co-ordination between cash flow management, profit and loss forecasts, balance sheet forecasts and stock control. You should check with your accountants that your system will be compatible with theirs.

Make sure that the system suits your needs. A particular system might be wonderful for a large store but if it is too complex for your shop, it will be harder to work with and it might be more trouble than it is worth.

Depending on your business, you might be able to introduce an EPOS system that will integrate with your other computer-based systems.

*ABi produces a range of Fact Sheets for businesses. The 'Stock Control Review' Fact Sheet provides additional information for independent retailers on this topic.*