

How to set up a cash reserve

Running a successful business is a juggling act between cash coming in and cash going out. If you've built up a cash reserve, you'll be better able to stay in business and handle short-term issues like falling sales.

Build a cash buffer

Businesses generally fail because they run out of cash. Cash in the bank acts as a buffer and can help you better weather the ups and downs you may encounter when running your business. Having cash in reserve:

- Buys your business more time if things go wrong.
- Allows you to experiment and test new ideas without needing immediate revenues to cover your costs.

Make cash available from your inventory

Buying in bulk and having unsold stock is cash you can't use. To preserve your cash and avoid getting it tied up in stock, try:

- Introducing lower minimum stock levels.
- Putting a just in time (JIT) policy in place rather than ordering large, bulk orders. For example, Toyota helped popularize the JIT inventory system by only scheduling for parts to be delivered 'just in time' for when they're needed in the production process.
- Holding a stock take sale to reduce levels of older stock and to free up some cash.

The per unit savings associated with larger orders can be tempting, but always be aware of the impact on your cash position.

Enhance your debtor management

Inspecting the credit history of customers before you extend credit terms is an important step in minimizing the chances of having cash tied up in debtors.

Excellent debtor management can be achieved by:

- Asking all your credit customers to fill out and sign a credit application form showing your terms and conditions.
- Adding your credit terms to quotes and invoices.
- Applying credit limits to each customer – and asking for deposits for larger orders or prepayments for work being carried out.
- Checking for a history of bad debts – when new customers ask for credit terms.
- Keeping in touch with your accountant – and giving them any debtor records recorded through your accounting software.

Assess your business borrowing

Is your business loan the right one for your needs? It can be easy to forget about your loan as you concentrate on the day-to-day running of your business.

However, with volatile markets and banks continuously competing for business, it would be wise to keep in close contact with your bank manager to take advantage of any loan restructuring opportunities.

Make sure you also discuss how much you should borrow with your accountant.

Lower costs

Look at ways you can cut costs to your overheads, obviously not to the detriment of your business, but do shop around to see if you can get a better deal. Take a look at your:

- Communications – reduce landline usage, adopt Internet communication services like Skype, and make sure you have a competitive mobile plan.
- Technology – upgrade to more efficient technologies and utilize handy new apps. For example, more fuel-efficient staff vehicles can make a significant difference to your operating expenses.
- Energy – install energy-saving lighting, power-off office equipment when not in use, and ensure heating and cooling devices (like heat pumps) are switched off when your business is closed.

Get rid of unused assets

It's almost inevitable that over time as your business grows and changes, you'll have some assets that aren't put to full use like they used to be. Perhaps you have idle printers that aren't really used anymore, a company vehicle that's past its use-by date, or outdated computer equipment.

Now's the time to scrutinize your business for assets that aren't really being used – and to sell them. Make a conscious effort to cash in on clutter.

Summary

You might want to consider setting up an automatic payment that adds to your cash reserve each month. Or even take a tiny percentage of your sales each month to help build a buffer. Either way, set your business a cash reserve target for the end of the year and try to stick to it.

Next steps

- Discuss your business's assets, stock, costs and debtor management with your accountant so you can work out some avenues for building a cash reserve.
- Speak to your bank manager about opening up a specific cash reserve account.