

Managing cash flow budgets as a small business

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Prof [Tommy Du Plessis](#) (former director of the NWU Business School, 2003-2017) shares some insight on managing cash flow budgets as a small business.

“A cash flow budget is not a static or “dead” document that is drawn up once a year just to keep the bank manager happy; it must be consulted, adjusted, and analysed regularly.”

We often hear of businesses plagued by cash flow problems. This is often a matter of the discipline necessary to manage cash flow not being present in that business. The most important advice in this regard is that business owners must continuously utilise their cash flow budgets.

A cash flow budget is not a static or “dead” document that is drawn up once a year just to keep the bank manager happy; it must be consulted, adjusted, and analysed regularly. If it appears that a business's cash flow gap is constantly negative, then the long-term viability of the business should be re-evaluated. However, if cash flow problems are simply a matter of the slow realization of cash inflows, then the following tips can be considered:

- Try to deliver invoices for goods or services to customers as soon as possible after the transaction is completed. Waiting until the end of the month, as many South African businesses do, unnecessarily extends the debtor collection period.
- Implement a deposit policy, especially for large orders where a considerable amount of work or the purchase of raw materials needs to be done upfront.
- Regularly review debtor analysis and actively manage and collect outstanding debtors, especially those exceeding credit terms.
- In exceptional cases, a discount can be offered to debtors who settle their accounts sooner. Just make sure that the discount calculated on an annual basis does not turn out to be more expensive than, for example, the interest paid on an overdraft bank account.
- Think carefully before accepting profitable contracts that will further strain the company's cash flow. Many businesses fail precisely because they couldn't say no to a transaction that was definitely profitable but had cash inflows realized far too late.

When it comes to cash outflows, special attention should be paid to the following:

- Try to keep inventory in the business at an optimum level. Again, look at “dead” or slow-moving inventory and remind yourself that it's actually “cash” sitting on the shelves.
- Supplier payments should be analysed continuously, just like discounts to debtors, to determine if a discount for prompt settlement might be a better use of cash flow.

- Capital purchases should be handled with care, especially during periods of cash flow shortages. It's also not always necessary to buy new items. Office equipment, for example, can be purchased as bargains at auctions or through classified ads.
- Pay close attention to all payments regarding operating expenses. Remember, it's the little foxes that destroy the vineyard! Regularly obtain new quotes on items such as short-term insurance, medical funds, printing and stationery needs, repairs, advertising costs, etc.
- Sole proprietors must be especially careful not to just withdraw cash from the petty cash when needed. It's sometimes shocking to see how quickly those smaller amounts can accumulate into a very large amount.

At this point, let's also highlight how absolutely essential it is for any business owner to manage the business' funds separately from their own. It is important for owners of small businesses, regardless of the form of the business, not to mix their personal affairs with those of the business; it is sometimes impossible to separate financial figures retroactively.

Lastly, it's advisable that every business pay a management fee, or a salary, to the owner for the services rendered as a manager, and that the owner should also be able to draw a "dividend" or profit share at the end of the year, if profits are realised, as compensation for the risk and capital invested.

This article was originally written in Afrikaans (*Advies vir Kleinsake: Die Bestuur van die Kontantvloei begroting verg dissipline*) by Prof Tommy du Plessis.