STRATEGIES TO MANAGE YOUR BUSINESS' CASHFLOW

Given the current situation and the financial challenges often faced within the forest industry, many business owners wonder what they should be doing with their cash in the bank. A common question I get from clients is—who should I pay first? Cashflow is tricky and should always be a focus of strong business management.

Who should I pay first?

When cash is tight who should you pay? A business' first priority is to keep the equipment going; without that your cashflow ceases. Most contractors know you need to pay your fuel, wages and equipment payments before anything else. These are the big three of any contracting business. Owners also need to be aware of which commitments are guaranteed personally and the impact of the business' debts should they default.

If you have personally guaranteed the debt and your company defaults, you will be required to cover it with personal assets. This can create a situation where you are required to sell personal assets to pay corporate debts. Defaulting on this type of debt can affect your personal credit as well.

If you do not have a personal guarantee on the debt, then your business may be able to default with minimal effects on your personal finances.

Canada Revenue Agency

If you are going to rank your creditors in order to pay, Canada Revenue Agency (CRA) is one of the most important. CRA has the authority to freeze your accounts and withdraw funds. They will not ask before withdrawing and can cause serious cashflow issues should you be in arrears. They can also direct your customers to pay CRA directly any money they owe your company for services rendered.

Also, certain CRA debts such as GST and payroll remittances are considered to be money held in trust for the government. As such, should a business default on these remittances the debts may be assumed by the directors of the business. They need to be treated the same as the big three business expenses.

Cashflow management tips

There are some simple strategies to create a better cashflow in your business:

Invoicing: invoice your customer as soon as possible. I commonly see where contractors miss invoicing at the end of a customer's cut-off period and end up waiting for payment until the next cut off. This results in a longer wait for your cash. Also, a short invoicing cycle is important when considering the Forestry Service Providers Compensation Fund if your licensee ever goes insolvent.

Extend your payments to suppliers: while you want to remain current with your suppliers, paying too quickly puts unnecessary strain on your cashflow. Pay based on their terms; if they request payment within 30 days, don't pay in 15, wait the full 30 days instead.

Prepare a monthly cashflow projection: by planning ahead you are able to predict cash shortages and prepare for them. By projecting your cash needs you can align them with your debt obligations and get options such as skipping payments in the right period.

Create a cash reserve: ideally a contractor should try to maintain one to three months of working cash on hand to cover unexpected needs such as a customer who doesn't pay or bad weather.

Manage growth: gearing up can always be a tricky time in a contractor's business cycle. Upfront costs can use up cash at an alarming pace while new cash has yet to come in. Plan your growth and project what your cash needs will be to obtain the growth you want.

Equipment purchases and cashflow

Deciding on buying a new piece of gear is a regular occurrence in the industry. Most contractors consider the overall cost of the machine and the interest rates; however, only some consider the impact on cashflow. The length of the term, timing of your payments all have significant impacts on your business' cashflow.

The shorter the term, the quicker you will be required to pay off the purchase price. By lengthening the term of your purchase, you can decrease the monthly cash requirements of the business, but may mean more interest is paid over the life of the loan.

Timing your skipped payments is always a tricky maneuver. Mother Nature is hard to predict. Try to base skipped payment timing on your past experience of working in the areas you plan to log. This is further complicated when you are financing the equipment over five years but only have six to 12 months of logging planned.

Down payments should be limited to the minimum required as large up-front payments can put unnecessary burdens on cashflow. The only time you may wish to put an additional payment down is to create a more stable and lower monthly payment. But if this is the case you need to consider if this equipment will earn enough to pay the monthly payment based on the minimum down payment.

Major Expenditures

While it is very tempting to consider a major rebuild or mechanical work when you're not working, it is not considered a wise investment if you don't know when it will begin to generate cash flow again.

Bottomline: Conserve your cash when you are not working.

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