Managing year-end profits

By Theunis Fourie 20 Dec 2013

For the business owner of many coastal businesses, the holiday season is the highest cash flo quarter of the year but the decision on where one's holiday profits should go and how one can grow that cash in the business, may well make or break the business in 2014.

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Money, spent unwisely, could put one's business in a worse position by creating more business expenses personal overheads. Perceptive business owners strive to manage excess cash for maximum return, whil minimising risk and maintaining adequate liquidity.

Managing excess cash

The first step is to establish whether this is indeed excess cash.

Sometimes, businesses collect payment from clients early, before they have paid for essentials such as r materials, inventory and labour that will be needed to produce a product or deliver a service. In this case, t extra money in the operating account is not excess cash; it is just a temporary bump in the account balanc until payables for cost-of-goods sold are disbursed. This money should be kept safely in the operating account to pay expenses as they become due.

There are three main objectives to consider when managing excess cash:

1. Invest the money in safe investments that suit one's risk appetite
2. Keep the funds as liquid as needed so they can be accessed to meet operating expenses, if necessary
3. Within these parameters, generate the highest possible return on the funds

In today's environment of ongoing economic and business uncertainty, coastal business owners who rely heavily on the year-end season for their annual turnover should carefully balance the three primary objectiv when it comes to investing excess business cash.

No investment is risk free - some give a low yield at sometimes less than inflation, in which case one has l money and, in extreme cases, one could even lose the capital. Such a decision therefore requires proper planning to understand what one ultimately will be using the money for and when one will need it. This will indicate investment goals and timing projections and whether one should go for a long- or short-term investment.

Take the overall ebbs and flows of one's business cash flow cycle and decide on the minimum cash balar that one is comfortable with. To do this, one needs to determine how much working capital is necessary tc meet one's company's ongoing operating expenses.

There are a number of options to consider when planning investing that excess capital. Some of these options allows one 100% of excess cash from day one (at a cost) and at no cost after giving 45 days notic with multiple notices permitted.

For more guidance and assistance, one may want to talk to an investment specialist to help analyse one's cash flow cycle, determine an appropriate minimum balance for one's operating account and choose the right investment vehicle for excess cash.

ABOUT THE AUTHOR

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