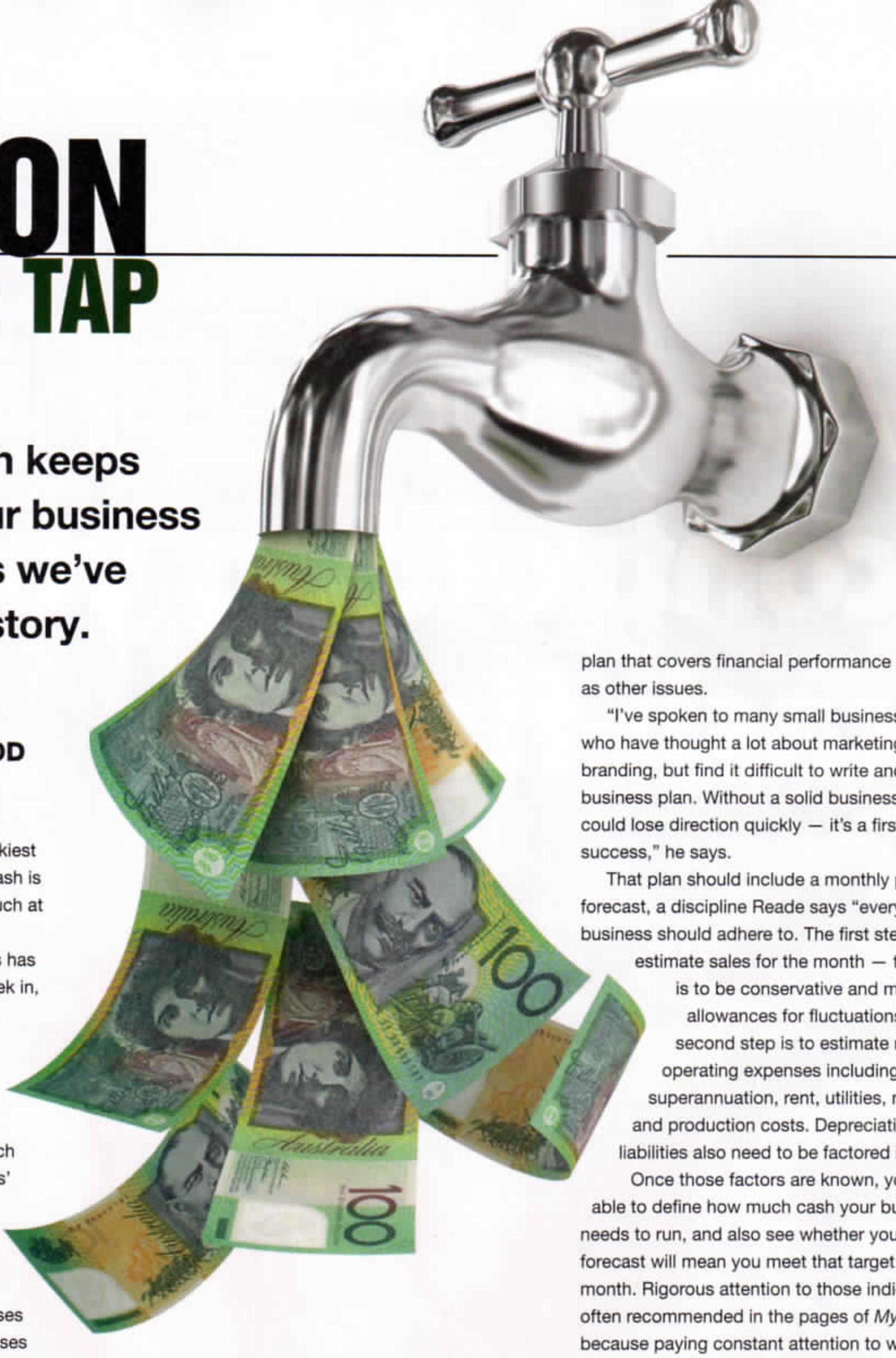
TURN ON THE CASH TAP



Make sure the cash keeps flowing around your business with the expert tips we've assembled in this story.

STORY BY **SIMON SHARWOOD**

Managing cashflow is one of the trickiest tasks for any business. Too little cash is hardly ever desirable, while too much at the wrong time can also create problems.

So how can you make sure your business has a steady stream of cash that nourishes it week in, week out?

An important first step, says Nick Reade, the ANZ's General Manager for Small Business, is to understand the difference between turnover and profit, as doing so gives you a better understanding of how much cash needs to flow into and out of a business' bank account.

"Understanding the difference between profit and turnover is a fundamental principle of business success," he says. "Profit is what is left after all business expenses have been paid as well as tax. Small businesses should always have a very clear picture of their operating profit at any point in time."

"The irony is you can have a seemingly successful business, which is turning over a lot of money, but is not profitable," Reade adds. "Turnover doesn't equal profit. If operating costs equal or exceed turnover, then you are just spinning your wheels, or worse, making an operating loss. "

To avoid this situation, Reade recommends that small business owners develop a business plan that covers financial performance as well as other issues.

"I've spoken to many small business people who have thought a lot about marketing and branding, but find it difficult to write and stick to a business plan. Without a solid business plan, you could lose direction quickly — it's a first step to success," he says.

That plan should include a monthly profit forecast, a discipline Reade says "every small business should adhere to. The first step is to estimate sales for the month — the key is to be conservative and make allowances for fluctuations. The second step is to estimate monthly operating expenses including salaries, superannuation, rent, utilities, materials and production costs. Depreciation and tax liabilities also need to be factored in."

Once those factors are known, you'll be able to define how much cash your business needs to run, and also see whether your income forecast will mean you meet that target in each month. Rigorous attention to those indicators is often recommended in the pages of *My Business*, because paying constant attention to whether you are on track to cover your operating expenses is essential to keep your business on track!

Getting cash through the door

A second cashflow challenge comes from something that is hard to control, namely the behaviour of those who owe you money.

Dr Greg Chapman, a Director of Empower Business Solutions, uses an anecdote to explain why this can be a problem: "One of my clients just informed me he had $130,000 owing — about

"The real secret was managing client expectations. These were not just about accounting changes, it was a systemic change of workflow process."

boots that were not generating any sales. That didn't stop an invoice for the boots arriving!

It's hard to plan for a warm autumn, but the story illustrates the importance of not sinking cash into stock that won't generate cashflow. You should never, for example, buy lots of Ugg boots in October — they won't sell in summer and you won't have enough cash to buy the sandals people are ready to buy! Nor should you buy more stock than you need, especially if you are dealing in perishable goods. Instead, use your business plan and forecasts to make an informed purchase based on either past trading or industry benchmarks.

If you find yourself stuck with stock that crimps cashflow, one option is to reduce its price to encourage shoppers. Another lever to pull is changing the terms on which you acquire stock in the first place. Try to agree on terms that require only part payment or, better still, take stock on consignment so you don't have to pay until items sell. Negotiating a payment schedule is another option: the shoe store mentioned above might find a sympathetic ear from Ugg boot manufacturers who understand that the weather has dealt the industry a tough hand and wants to demonstrate a little goodwill to make sure it remains on retailers' radars once the weather cools and demand returns.

Tax

Another organisation which, perhaps surprisingly, is sometimes happy to accept partial payments is the Australian Taxation Office (ATO).

Do not, under any circumstances, assume the ATO will offer to do so as a cashflow management tactic. Indeed, the ATO generally prefers to be paid promptly and in full.

Some businesses forget or ignore that fact and don't set aside the share of revenue required to meet GST or other tax obligations, often because they hope cashflow will come good at about the same time tax payments fall due. Others feel that setting aside cash is wasteful, as money should be out working rather than mouldering away waiting for the tax office to trouser it.

If your forecasts suggest you can get away with this tactic, good luck to you! A more conservative and prudent course of action if you foresee difficulties paying tax is to trim discretionary expenditure so you can meet your tax obligations promptly. There are many ways to trim costs, but doing so while remaining productive is the trick!

Another tactic is to use the many bank accounts and accounting software packages tha funnel cash into special sub-accounts designed to house GST. Some of these sub-accounts even pay decent interest to encourage deposits — a nice incentive.

If things go pear-shaped and your cashflow means you cannot pay the ATO, your best tactic is to 'fess up', fast. The ATO has little interest in seeing businesses close and often works to ensure they can pair their tax debts at a lower rate. This is not a frontline cashflow managemen tactic, but can be useful if your affairs hit the wall

You also need to make sure your cashflow management regime salts away enough money t make employer superannuation contributions for your workers. Failure to make payments by the end of the financial year can result in penalties.

"I have recently introduced a travel discount for my VIP clients," she tells *My Business*. "I charge travel at $1.25/km from my office in West Mackay to their house, but as this increased the cost too much for my 'out of town' clients, I offer those that have a good payment history a 35 per cent discount, applied to their next invoice."

"This means I charge the full rate and they pay it, increasing and maintaining my cashflow for wages and travel allowances to employees and on the next invoice (provided the original is paid within my seven-day terms) they receive a 35 per cent discount on the next invoice. They do usually incur a new travel charge on the new invoice as I have visited them again, so the new, full-rate charge appears for that day, then the discount for last week's trip, as long as the invoice was paid on time."

Another way to get more cash through the door more quickly is to give your customers more ways to pay. Credit cards can be particularly attractive to those debtors who love to rack up frequent flier points. They also work very well for tradespeople, thanks to mobile credit card readers that make it possible to take payment in retail customers' homes. While credit card processing fees come into the picture, they are relatively low and the expense incurred is often worth it, given that the quick turnaround in payments saves time and effort that would otherwise be spent chasing payments.

Spend money less often

Another great way to improve cash flow is to send less money out the door, less often. This is especially applicable to retailers that learn to manage their stock levels effectively. To understand why this is important, consider the case of a shoe store of *My Business*'s acquaintance. This retailer made a big order for Ugh boots in February, betting that when they arrived in-store temperatures would be falling and shoppers would be readying for winter by purchasing warm clothes.

An unseasonably warm April meant shoppers put those purchases on hold, leaving the store with a back room crammed with unsold Ugg

50 per cent of his turnover," Chapman recalls. "He is a supplier in the building industry, where project life cycles can be many months. His payments were based on milestones, but there were continual delays and with information not being provided and last-minute changes. This lead to a situation with numerous projects falling short of their milestone payments," and insufficient cashflow.

"The problem had to be broken into two parts — new clients and legacy clients," Chapman says. "For new clients, the solution was to include a combination of a time-based and milestone-based payment schedule. This meant business was able to invoice to cover their costs if their client was responsible for delaying the milestone.

"Stronger discipline was also used to limit variations that were really outside the original scope or that were just changes of mind. This included client education."

Existing clients were introduced to a different regime. "Where there were clients who had multiple jobs with the business, work was halted on all projects if payment was not timely on even a single project where milestones had been achieved."

That approach may seem harsh, but Chapman says it was necessary given the building industry's propensity for delays. "Late payments are the norm and non-payment through manufactured disputes is common," he says. "For the business, it meant that they would never again have outstanding payment for work more than a few weeks. The side benefit, ironically, is happier clients as they know the rules from the start and they feel that they are given clear choices when making changes, which greatly reduces disputes."

The firm also taught its staff how to set client expectations in ways that could boost cashflow.

"Staff were educated about over-promising and the correct way to handle client changes," Chapman recalls. "In fact, we developed a script to do this so that no-one felt uncomfortable, but the real secret was managing client expectations right from the start. These were not just about accounting changes, it was a systemic change of workflow process."

Incentives

Another way to improve cashflow is to offer incentives to your customers which encourage them to pay more promptly.

"Even a small percentage discount can be enough encouragement to get your invoices paid promptly," says Eric Bigalk, Founder and Creative Director of boutique marketing and publicity firm Smart Solutions PR.

Julia Williams of Advanced Bookeeping services in Mackay has devised a clever incentive scheme.