

Profit Accelerator Tool

Some excellent tips to improve your cash flow

Introduction:

If you look in a dictionary to find out what “cash flow” means, you will find something like this:

“Cash flow (noun) The total amount of money being transferred into and out of a business, especially as affecting liquidity.”

Not very helpful, is it? But at least it conveys the idea that we are talking about **cash** —the only real measure of how well your business is doing, and the only thing you can put in the bank. Let’s look at this more closely.

Cash comes in from sources like these:

- Sales
- Reductions in stock
- Payments from debtors
- Commissions paid by your suppliers

And in your own business there may be others.

The thing to notice is that this inflow is not necessarily smooth and predictable. Your sales don’t happen at the same pace all the time; you might only have a sale once a year to clean out unwanted stock. Your debtors tend to pay what they owe you at one time during a month.

*And that’s where the trouble starts, because your outwards cash flow tends to be quite regular and predictable. **And mostly unavoidable.***

Cash goes out NON-STOP to destinations like these:

- Staff pay
- Rent
- Interest on loans you have taken out
- Power
- Vehicle running
- Hire purchase on capital equipment

The crucial thing to understand is that you have NOT made a useable profit until the money is in the bank. If you allow your customers credit, for instance, your books will record the

sale and its profit, and the tax authorities will want from you the state tax, VAT or GST (or other value-added tax) you have collected for them, and eventually the tax on the profit that your books show.

The tax authorities don't take promissory notes, and nor will your landlord or the power company.

You need cash to keep everybody happy! **Having enough cash is "liquidity."**

As you will quickly see, all businesses welcome extra cash to pay bills or to expand.

This Profit Accelerator looks at tactics you can use in three areas of your business to raise extra cash. It offers you some ideas about managing your cash flow, and a checklist at the end to help you draw up an action plan.

Internal sources of cash:

People often overlook internal sources of cash flow improvement. Before you look anywhere else, see how much money you can release from your own business through improved management.

Use cash flow forecasts to anticipate difficult periods and seasonal cash shortages

Good cash management begins with the ability to anticipate what lies ahead. Regular cash flow forecasts will show you when cash shortages are likely to occur (such as seasonal dips). You can then plan for shortfalls.

If you need to borrow to top up your cash reserves, you will make a more favourable impression on lenders if you approach them for finance well beforehand, rather than during a cash flow crisis.

Plan for your commitments

Set money aside **in advance** for tax obligations and also for major bill payments. (Safely banked in an interest-bearing account, this cash can earn you more money.)

Review and renegotiate your financing options

Added to the capital you have invested in your business, your bank is almost always your best source of "working capital." Your bank manager will usually want to see your overdraft swinging into credit every month, and will get nervous if your cash balances seem to be shrinking.

So, speak to your bank about different financing options. Is the structure of your financing balanced, and are you using the right kind of finance (for example, short-term versus long-term)? Can you get your interest bill down by changing the mix?

Reduce stock levels

You can get the quickest cash flow from more efficient stock control – or getting rid of surplus stock. Stock is "money in chains," so **always** look hard at your stock levels.

Identify your fastest moving stock and concentrate on that. Hold a sale to free up cash by getting rid of outdated, surplus or non-core stock. The most efficient businesses are those that turn their stock over quickest.

Consider this: if you normally carry \$50,000 worth of stock and you can reduce that by 20%, you can put \$10,000 into your bank account. Could you turn the remaining \$40,000-worth over several more times a year?

But be careful! If you reduce your stock too far, you might reduce your volume of sales too. Customers can smell when you are running your stock too lean, and they might just go and shop somewhere else.

Increase your sales (especially cash sales)

Brainstorm with your staff, your shareholders, or your spouse — or all of them — the quickest way of increasing cash sales.

For example, delegate a staff member to contact the top 20% of your customers who give you 80% of your business. Offer them special deals, or discounts for prompt cash payments. Maybe you could sell them additional, or complementary, products or services.

Reduce overheads

Remember! Not all expenses are equal. There are “good” expenses and there are “bad” expenses. It’s the bad expenses you need to drive out of the business.

Have a hard look at your business expenses over, say, a six-month period to get a feel for where the money is going. Identify what you can cut back without affecting your service levels. Ask the hard question: “Are these dollars I’m spending really earning money for my business?”

Review or defer expenditure

If you need office furniture or equipment can you buy it second-hand rather than new?

Do you really need a new V8 Audi?

Ask yourself: “Do we need to do this now? Is it going to improve our cash flow and make the business more profitable?”

Look for extra sources of income

Do you have more office or warehouse space than you need?

Could you rent out part of your office or facilities to bring in more cash?

Could someone hire your equipment after hours? (We know of a hairdressing business that rented out its central city salon at night to a person who operated it as an all-night salon.)

Sell off some assets, rent or lease equipment instead

Are there any unproductive assets you could sell? Could you sell and lease back certain equipment? Should you rent or lease capital equipment instead of buying it? Ask your accountant for advice about this — it could affect the amount of tax you pay on your profit.

Tighten systems and control staff

Keep control of your own business. Who signs the cheques and who makes buying decisions? Reduce opportunities for theft or fraud or simply for thoughtless spending.

One businessperson we know found his staff had ordered enough stationery to last for five years “to take advantage of a good price.”

The money could have been better spent — obviously!

Subcontract rather than employ

Could you save money (and administrative expenses) by subcontracting certain occasional or irregular work rather than employing someone?

Factor your invoices

Raise money quickly by selling your debtors' ledger to a factoring company. You'll get less than 100% of the ledger's value, but then you won't have to worry about collecting the debts.

Get more cash faster from your customers:

Raise your prices

Consider raising your prices. Many businesses are afraid of this step, but when done well and carefully it often brings very positive cash flow results.

Offer a selection of payment terms to people you know well

Get to know your important customers, and work out how they can help your business along. Putting genuine effort into good customer relations can pay quick dividends when you need cash in a hurry. For example, you could ask selected customers to:

- Pay by credit card (the money is immediate; your customers get up to 55 days credit).
- Pay a deposit on a large order.
- Make progress payments as work is completed or goods delivered.

Make payments easier for everyone

To encourage early payment, offer your customers as many payment options as possible, including cash, credit cards, EFTPOS, and on-line payments.

(Many traders these days print their bank account numbers on their invoices and statements, as a matter of course. **Almost no-one accepts cheques any more** because they are risky, and expensive to handle. In some countries cheques will no longer be accepted by banks from 2018. But in the meantime, it's all a matter of your good judgement.)

Make it easy for people to buy from you

Almost everyone these days has a website from which people can order supplies or services. For most businesses, having a professional develop a website is a "good" expense. **But it carries with it a number of organisational and "cultural" changes** to which your business and your staff will need to adapt.

(But WE did it, and that's why you're reading this now!!!)

There are other ways to make it easier and cheaper for your customers to contact you: consider free phone and free fax services and promote your email address.

Create efficient debt collection systems

Work at releasing the money locked up in unpaid invoices. Efficient systems can greatly improve your cash flow. Here are some tips:

- Credit check all new customers. (This is a "good" cost.) You don't have to do business with people who can't or won't pay you.
- Send out your invoice promptly, identify late payers early and follow them up promptly.

- Collect money faster. If your customers take an average of 45 days to pay you, set a goal of reducing this to 30 days.
- Tighten up your terms of payment: for instance, to “7 days net” rather than “20th of the month following invoice date.”
- Consider cash discounts for early payment of invoices.
- Find ways to increase cash sales and decrease credit sales.

Work with your suppliers:

Strengthen your relationship with your vendors.

Establish a good track record in paying your accounts. Once you’ve gained the trust of your vendors by paying their bills regularly, try negotiating discounts or better terms of credit. Any discount is worthwhile, so always take them.

Good relationships mean a better chance of being offered special deals.

Your suppliers are not your bankers, so don’t run up overdue balances with them in order to protect your bank balance. *(This is a very common, and much detested, business practice. If you avoid the temptation, expect to have a much better relationship with your suppliers.)*

Give your suppliers ample warning of payment problems

Give your suppliers ample warning if you foresee a problem in paying a bill. Nobody likes surprises sprung on them at the last moment. The closer your relationship with suppliers the easier it generally is to negotiate payment problems. Some options:

- Can you make a part payment?
- Can you pay by credit card? (But avoid this if you can. Credit card interest charges are astronomical!!!)
- Can you ask the supplier to take back some surplus or obsolete stock?
- Can you negotiate better prices or extended credit? (If you don’t ask, you don’t get!)
- Can you find an alternative supplier (for example, by searching on the Internet) who might offer better terms?

Case study: Leveraging off new competition among suppliers

The owner of a gift shop we know was able to leverage new supplier competition into lower prices and more favourable terms.

She explained to her main supplier’s sales representative: “I’m being offered some alternative products by a new supplier at very competitive rates, but I’d like to stay with you. We’ve built up a good relationship, but these new prices are tempting! What can we do to help each other here?”

The sales rep said he would get back to her after he had spoken to his sales manager.

The result was a mixture of better discounts and more extended credit terms.

Just-in-time ordering

Try to make your vendors or wholesaler or your warehouse carry the inventory burden. (But balance the stock reduction against your ability to satisfy your customers' needs quickly and completely.)

Cash flow checklist:

Finally, use the cash flow checklist that follows to identify possible cash flow tactics and draw up an action list for your business.

Improve your cash flow using these sources

From internal sources

- Foresee problems by making (and revising often) cash flow forecasts.
- Anticipate bills (especially one-offs) and your tax obligations, and set money aside to pay them.
- Sell your debtors' ledger to a factor to raise cash. (Expect to pay a margin for the privilege.)
- Reduce your stock levels through sale or other kinds of promotions.
- Offer surplus stock to selected customers.
- Increase your rate of stock turnover.
- Reduce overheads: eliminate "bad" costs.
- Tighten security to reduce theft, and risk of fraud.
- Use outside contractors for one-off projects, rather than employ extra staff.
- Sell surplus and under-performing assets. Lease or rent instead, but remember this increases your outward cash flow.
- Review or renegotiate financing options with your bank.
- Look for extra income (through increased use) from unused equipment, space or facilities.

From your customers

- Consider increasing your prices.
- Develop closer relationships and offer special deals to your best customers.
- Seek early payments (credit card, part or progress payments)
- Make it easier for your customers to pay, using modern payment facilities like on-line banking.
- Develop a website to solicit orders which are then paid for before you deliver the goods.
- Always check the credit of anyone wishing to open a charge account.
- Send out invoices promptly, and follow up overdue payments promptly.
- Shorten up payment terms, e.g.: 7 days
- Follow up overdues vigorously, and shorten average collection times.
- Offer your customers additional or complementary products.
- Consider offering discounts for cash payment.

- Increase cash sales, decrease credit sales.

Your suppliers

- Develop relationships and a reliable payment track record.
- Get advance notice of special offers.
- Take advantage of discounts.
- Ask supplier for alternative, more favourable payment methods.
- Pay suppliers by instalments.
- Pay by credit card. (Avoid this if you can. Credit card interest charges are astronomical!!!)
- Renegotiate terms/ask for extended credit.
- Ask suppliers to take back surplus or over-ordered stock.
- Use just-in-time ordering to reduce your stock levels. (Let your supplier be your warehouse.)
- Search for alternative suppliers to keep your present supplier awake.

Want to know more? At Zumo Retail our consultants can help develop strategies that drive cashflow for your business. For more information contact: info@zumoretail.com