



PJT Accountants
& Business Advisors
Business. Lifestyle. Success.

Improve Your Business Cash Flow





Fail to Plan = Planning to Fail

Many businesses fold, or struggle needlessly due to poor cash flow. Poor cash flow is a source of worry, as you wonder about how you can meet your financial obligations, and you are limited in expanding your business. You may have a profitable business, but poor cash flow can bring to its knees.

Improve the Key Drivers to Cash Flow

Sales

Sales are the key to your cash flow. You need to determine what level of sales you need to make to cover all of your expenses. Sales are dependent on five things:

- Retain Current Clients
- Increase the number of leads or enquiries
- Increase your conversion rate
- Increase the number of transactions a year
- Increase the average transaction value

The above factors are discussed further in the 'Increasing Revenue' whitepaper.

Invoicing

Customers pay when they receive an invoice and it is vital that this is done regularly and frequently. Don't leave invoicing to the end of the month. If the job is finished, invoice it on the day. This results in money coming in consistently. Don't be afraid to set your payment terms. State the due date clearly and look at receiving some payment up front.



Manage Your Debtors

A sale doesn't count until the money is in the bank. A well managed debtors system is critical for a successful business. Ensure that your debtors system has preventative measures as well as a step-by-step plan to recover overdue accounts. Some examples:

- 🕒 Credit checks for all new customers.
- 🕒 Receiving deposits on signing of contract.
- 🕒 Discounts for early payment.
- 🕒 Send out invoices immediately.
- 🕒 Regularly review aged receivable report and consistently follow a step by step plan to follow up overdue accounts.
- 🕒 If the customer cannot pay the whole amount, be flexible and arrange a payment plan.
- 🕒 Take the first payment straight away while on the phone by asking them to pay by credit card.

Inventory & WIP Management

Holding inventory and work in progress (WIP) can be a huge expense for a business. Not only does it tie up your cash, but you could be paying additional outgoings such as rent and electricity to store it.

Do stock control and monitor how long you are holding your inventory. Review ways to reduce this time. Talk to your supplies about the timing of delivery and review bulk purchase discounts.

A job monitoring system can be used to monitor your WIP. This will monitor turnaround times and budgets for each job.



Finances

It is important to ensure any loan or overdraft is helping you in your business. If cashflow is tight, review your finance facilities to ensure they are structured correctly. Review your overdraft to ensure it is the right level. For example, John had an overdraft of \$300,000 in his business. On review it was discovered that this normally fluctuated between \$200,000 and \$300,000. To help reduce interest rates, John restructured his finance facilities to move \$200,000 of his overdraft to a loan at an interest rate of 8%, and reduced his overdraft to \$100,000 which had an interest rate of 9%. This provided John a saving of \$2000 per year.

Cash Flow Planning

There are two ways to use cash flow forecasting as a planning tool:

- 🕒 **Short term planning** – to see where more cash than usual is needed in a month, e.g. when several large annual bills are due, and the cash in the bank is likely to be low. This is normally on a day by day basis.
- 🕒 **Long term planning** – to find where cash flow can break the business, especially important when you want to expand or purchase capital items. E.g. seasonal effects, purchasing new season stock, purchasing equipment. This is normally done on a month by month basis.

Importance of a Cash Flow Projection

- 🕒 Allows you to identify months where cash will be tight.
- 🕒 Helps you set budgets and identify your break even point.
- 🕒 Identify if you can afford the equipment you need.
- 🕒 Allows you to put in place budgets and goals e.g. affect of implementing a stricter debtor policy.
- 🕒 Allows for planning of using cash flow positive months to support cash flow negative months.



- Allows you to work on the business by strengthening areas which need improvement.
- Can be used for finance purposes.

A cash flow plan needs to be reviewed and monitored regularly to help your business. It ensures you stay on track and identify where problems may arise.

Remember – cash is the oxygen of a business. If a business is unable to pay its bills when required, it might be unable to operate or close its doors – even if profits are being made.

Improving Cash Flow Checklist

- ✓ Establish a working cash flow budget
- ✓ Monitor workflow including inventory and WIP and set targets to get jobs done and invoiced efficiently
- ✓ Establish a debt collection policy and stick to it
- ✓ Review your Finance Facilities

More Information:

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