

Ca\$hflow Management Checkli\$t

Cash is King. It is the mantra of business, particularly small business. Cash is the oxygen of any economic activity. Your chances of physical survival without oxygen are very bleak. Your chance of business survival without good cash flow is also next to none. So don't let your business turn into a corpse.

During economic downturns the need for good cashflow only increases. So here are my top ten tips for improving cash flow management.

Earning

1. Increase your income. It may sound obvious, but you need to consider every revenue generating opportunity that comes your way. Review your sales and marketing processes. A lot of people focus on debt or expenses first but these things are limited. Income can be unlimited, so it has the potential to make the biggest contribution to improving your cashflow. If you forget everything else you know about cashflow, don't forget to focus on increasing your income.

Collecting

2. Negotiate terms with your debtors. Debtor management is crucial to good cash flow management. During a downturn, customers can get into trouble quickly and start lengthening the time it takes for you to make collections. Know your "average debtor days" (how long it takes for you to get paid after you issue an invoice) and look for ways to keep reducing this down. Staying in constant contact with your debtors is the best prevention against bad debts. Collect early and often and rather than waiting until things turn sour.

Taxing

3. Tax may be your largest expense in the business, but because it is "hidden" you may tend to ignore it. Talk to a professional about all the ways you can legally reduce your tax obligations. You will probably be surprised at how many options there are to improve your tax management.

Interesting

4. Interest can be a killer. If you have a mortgage or made purchases on credit card, or God forbid used cash advances, you have probably paid at least twice as much for the object as you thought you did. If you've been carrying a balance for a number of years, you may have even paid three or four times the initial cost just in interest, let alone the possibility of late fees, overdrawn limit fees and so on. Get out your statements and make

sure you know just how much cashflow your interest charges are eating up. Then put your credit on a diet!

Paying

5. Payroll is a sensitive issue with employees and can be a great motivational tool. But it can also chew up cashflow more than just about anything else. If it is feasible it may make sense to pay employees monthly rather than fortnightly, or reduce hours of some non-essential staff. Look at compensating employees with a performance-based annual bonus rather than increasing their ongoing fortnightly expenses. Explore non-cash ways of rewarding and motivating your staff. For example, young mums might value flexible hours rather than a stable income; some staff may appreciate a new title or recognition rather than a pay rise.

Matching

6. Become a match-maker. Try to match the timing of your outgoings to your incomings. Timing is the deadly terrorist in the cashflow world. Even large companies with millions in turnover can go bust very quickly if they have to make large payments to suppliers in the weeks before they receive the next income cheque from their largest customer.

Selling

7. Sell assets. This is not the same as increasing your income. It will only generate a one-off injection of cash, but that may be exactly what the doctor ordered. The best type of assets to sell off when you need to raise cash quickly are those that depreciate in value and are a cash drain to maintain (like a car). Think very cautiously before you decide to sell off assets that appreciate in value and generate a return on investment (like rental real estate).

Accepting

8. If someone offers you money, accept it. Again, this may sound obvious. But during an economic downturn, particularly a credit crisis, it can be difficult to get additional finance when you need it. So as long as you are disciplined enough to not use it for frivolous spending, if someone offers you an overdraft facility, credit card or line of credit, take it.

Negotiating

9. Negotiate terms with your creditors. Don't just assume that their terms are 7 days because their invoices say so. Ring them up and negotiate a deal. For example, if you are a seasonal business you may be able to negotiate 90 day terms during your off season when your orders are smaller anyway, in return for paying in 7 days during your peak season.

Plumbing

10. Plug the leaks. Cash can quickly leak out a thousand different holes if you don't monitor it. Look at your expenses. Pay particular attention to ongoing expenses such as property expenses like rent or mortgage payments, membership fees, subscriptions, utilities and so on. When you are wasting money once a year it is bad enough. When you are wasting money every week, it can quickly ruin your survival. Try to avoid locking yourself into ongoing payment plans. Keep your options open. If you have the choice between spending on a tax-deductible item or not, always choose the more tax-effective option so you get more bang for your buck.



About the Author

Sharon Jones is an Accountant and the founder of Just Add Money Pty Ltd in Mandurah, Western Australia. Just Add Money is your resource for Weekend Accountants serving the business community in Mindarie and the Perth region.

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