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finance for growth

5 EFFECTIVE CASHFLOW TIPS FOR BUSINESS

LEARN TO IMPROVE CASHFLOW IN YOUR BUSINESS

5 Effective Cashflow Tips for Business

Just by reading the business section of any newspaper on a regular basis you can gain insight into what big businesses do to improve their cashflow. Many of these things are difficult to implement and should be carefully thought through rather than undertaken on a reactive basis at short notice. You should have at least three preferred options that can be readily deployed if something happens unexpectedly in your business. In this eBook, we discuss the five basic levers used by big business that you can also use to inject cash into your business.

1. Increase prices

Many small business owners are fearful of increasing prices. Generally speaking, prices are always going up. This is referred to as inflation and if you’re not increasing your prices then you’re going backwards compared to everyone else. Keeping Customers is important though it’s also essential to have an appropriate method of passing on rising costs to maintain healthy cashflow. Methods we can take away from big business include:

Link small regular increases to a public measure like CPI

You can link increases to a publicly available measure like the Consumer Price Index which is published quarterly by the Reserve Bank of Australia on their website. Better still don’t announce you are increasing prices. Make a habit of regularly sending a new price list to your Customers. Include some specials or loss leaders to mix it up a little. Many small regular increases will keep your business moving in the right direction and strengthen your business cashflow.

Break down and itemise your Costing

Another way to emphasise to your Customers the value of your products or services, is to break down and itemise the cost of each component. Smaller charges for many components are easier to justify to your Customers and will allow you to charge more than having just one large ticket price. The Banks are very good at this having many small charges for various products and services. They publish 'Guides' for us to help understand their numerous fees and charges.

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Introduce a Surcharge

If there is one major component to the cost of your products or services, particularly one that is subject to regular fluctuations, a surcharge is a good way of spitting the cost out and passing any changes onto your Customers. Typically, this is where you have commodity components or are importing items from overseas that are exposed to foreign exchange variations. Airlines have been using a fuel surcharge for many years and will often itemise the cost separately so passengers can understand why the price of tickets may have significantly increased over a short period of time.

Bundle multiple Products

This is a technique to sell multiple products to your Customers. Telecommunication businesses are great at this and often restrict the sale of individual items so that Customers are forced to spend more on a package of products.

2. Reduce Payroll

For most businesses, payroll costs are one of the most significant expenses of running a business. It is also a business-critical expense where cash must be outlaid regularly. So, its important to manage the impact payroll costs have on your cashflow carefully.

Good staff are hard to find when you run a small business. That's why it's imperative that you hold onto the good ones. Regularly you read in the news about hundreds of staff being laid off by larger organisations.

This is not an option for many smaller businesses with fewer staff. Large redundancies can also result in an undesirable and significant cash outflow through payment of accrued leave and other employee entitlements.

So, what can small business do to reduce the cost of payroll and its impact on cashflow while still retaining good staff. Well there are some sensible strategies we can take from big business.

a) **Freeze wage increases** – announce for a specified period that wage increases will be suspended, effectively frozen, until your business can return to a stronger cashflow position.

b) **Suspend hiring** – as staff leave for normal reasons, reassign their duties to existing staff. Explain to staff this is a process of streamlining your business and creating greater efficiencies. Good staff will identify this as an opportunity while less loyal staff are likely to consider it an imposition.

c) **Offer flexible solutions like part time work and job sharing** – increasingly we are leading more mobile lifestyles and our population is aging. There are many capable and skilled people who would prefer to work only part time or share a job. The challenge for small business owners to attract and retain these people comes down to simplifying processes that can be done in smaller batches, have good transfer of information within the business and investing in the technology that will allow staff to be productive and accountable in these flexible working environments.

d) **Outsourcing** – there are many tasks that small business owners take upon themselves to save a dollar which are at the expense of spending time on more productive tasks. Bookkeeping is a major one. Let go and concentrate on more business-critical functions like sales that generate cash rather than saving on outgoings that are not an effective use of your time.

> **"Let go and concentrate on more business-critical functions like sales that generate cash."**

One of the most controversial forms of outsourcing that is gaining increasing popularity because of greater accessibility is offshore outsourcing. If done correctly this can save your business a great deal of money. We have been wearing clothes made in China and driving cars from Europe for decades. Don't be left behind, a strong local business is always better for local consumers, local employment and the local economy, even if that business uses some offshore resources.

3. Sell excess and slow-moving inventory

Cash tied up in inventory is not always apparent to businesses who are focused predominately on their profit and loss. Accrual based accounting systems mean inventory purchases are concealed in the balance sheet and only hit the profit and loss in the same period inventory is sold. In extreme examples, inventory that is never sold will remain on the balance sheet until a decision is taken to write it off. Small business owners and managers are more likely to have a working understanding of inventory levels and its age walking around the factory or fielding phone calls from suppliers who are waiting to be paid. Excess and slow-moving inventory can be a cash trap particularly for businesses trying to do the right thing by their Customers and insure they are holding everything they anticipate their Customers will need.

Excess Inventory

This is where you are holding onto too much of your normal inventory items that you sell on a regular basis. To understand what is excess you first need to know your supplier lead times. That is the time it takes from when you place an order with your supplier to when it physically arrives into your business and is available to sell to your Customers.

Next you need to work out how many units of each inventory item you would sell during this same period of time. If you are currently holding more units than what you would sell in the time it takes to replace them you have excess inventory.

Ideally from a cashflow perspective you want to hold only sufficient inventory to support your sales through to when your next order arrives. Any surplus is excess and needs to be converted into cash.

There is a slight variation for manufacturers. You need a measure for raw materials and one for finished goods. Consider the time it takes to utilise raw materials compared to supplier lead times. Separately consider the time it takes to convert raw materials into finished goods relative to how much you sell within your known manufacturing time.

Slow Moving Inventory

These are inventory items that you've been holding onto for a long time. If long enough dust may have settled over them or the packaging discoloured with age.

Slow moving differs from excess inventory because you have decided to either hold this inventory for specific Customers or, to compliment other products your sell or, keep a premium version of faster moving inventory items for the occasional upsell.

Whatever the reason you should clearly define the length of time your business is prepared to hold slow moving inventory. An absolute maximum should be 12 months and then anything older than this needs to be converted into cash.

> **"If you have excess or slow-moving inventory older than 12 months you need to convert this back to cash."**

Release Cash tied in Inventory

If you have excess or slow-moving inventory older than 12 months you need to convert this back into cash otherwise it's likely to become obsolete and of no value to anyone. Some methods we can take from big business to achieve this are:

a) **Hold a sale** – seems obvious but not enough small businesses are in the habit of clearing out inventory on a regular basis. This is exactly the purpose of Boxing Day sales and Mid-Year or Stocktake sales that you see in the big department stores. Their goal is to convert everything into cash to make way for new season inventory. They offer significant discounts to clear it all.

b) **Use an Auction House** – there are many Auction Houses around the country that can sell your excess and slow-moving inventory. Some of them offer very sophisticated marketing tools including online stores with their own database of regular Customers. Spend the time to find an Auction House that has some experience with your products or industry. Be aware you may need to discount your price and share some of the sale proceeds with the Auction House to convert your inventory into cash. Consider using an Auction House located in a different geographic region to your business. This will minimise the potential for Customers to devalue your business brand and future products you offer to them for sale.

c) **Purchase on Consignment** – particularly for specialised products that can sit on the showroom floor for a length of time, speak to your suppliers about purchasing these items on Consignment. Very simply ownership remains with the supplier while you promote the product for sale and payment is only due once a Customer has made a purchase. You can avoid having your cash tied up in these items and link the Customers payment to your paying the Supplier.

d) **Introduce Variable Shipping Terms** – online shopping has brought with it the wide use of indent shipping. This is where product is shipped direct from the Supplier to the Customer and avoids any handling by the Wholesaler. Previously reserved for large volume orders from offshore factories going to national retailers, now with the advances of technology a single item can be shipped directly with the Customers purchase triggering the order from the Supplier. Even if indent shipping is not applicable to your business, consider having variable shipping terms.

> **"Products that are fast moving, bought impulsively and readily available elsewhere typically need to be held into stock."**

Products that are fast moving, bought impulsively and readily available elsewhere typically need to be held in stock. Customers are more inclined to wait for products that are more exclusive or have a desired combination of specifications that has been carefully researched and considered. By delaying delivery or committing to a longer shipping period, you can reduce the amount of inventory you need to hold and consequently the cash you have invested in that inventory.

4. Negotiate with suppliers

Price is important when negotiating with suppliers. Typically, both higher volumes and prompt payment will attract a lower price. However, price isn't everything and there are many other variables that BIG Businesses negotiate to minimise the impact on their cashflow.

a) **Payment terms** - this is the time in which your suppliers expect to be paid. If you don't ask for longer terms then you're likely to be put on COD (Cash on Delivery) or 7 days. This will obviously require you to manage your cashflow much more aggressively. The best situation is where you can arrange terms that coincide with the time it takes your Customers to pay you.

The standard terms for different industries will vary. Anything to do with perishable food or providing labour will require prompt payment. If you purchase large specialised or high value items that are not on sold quickly then you are in a stronger position to negotiate longer payment terms with your supplier.

b) **Credit limits –** there is no point negotiating longer payment terms if your supplier is unable or unwilling to extend an appropriate credit limit to your business. Supplier credit is one of the few forms of credit that is still free, or at least built into the upfront cost without requiring additional interest payments. Supplier credit is a great way of making your limited cash work harder for you.

c) **Delivery lead times** – longer supplier lead times mean you are required to carry more inventory in your business which ties up more cash. If you don't have a great deal of money to hold lots of inventory then the faster your supplier can ship an order to your business the better. Direct or drop shipments straight to your Customers are ideal.

An alternative to faster lead times would be to negotiate purchases on consignment. This is where your supplier keeps their inventory in your shop or showroom and you only pay for it once it has been sold to your Customer. The same can be negotiated by manufacturing or printing businesses for the raw materials they use.

If consignment is not an option ask your supplier for samples to display to your Customers. This combined with rapid supplier lead times will allow you to keep as little cash tied up in inventory as possible.

d) **Minimum orders** – if your supplier has longer lead times or you don't have the cash to hold large amounts of inventory then many small regular orders will allow you to more effectively manage your cashflow. It's important when negotiating the minimum order quantity or value with your supplier to consider any additional freight costs at the same time.

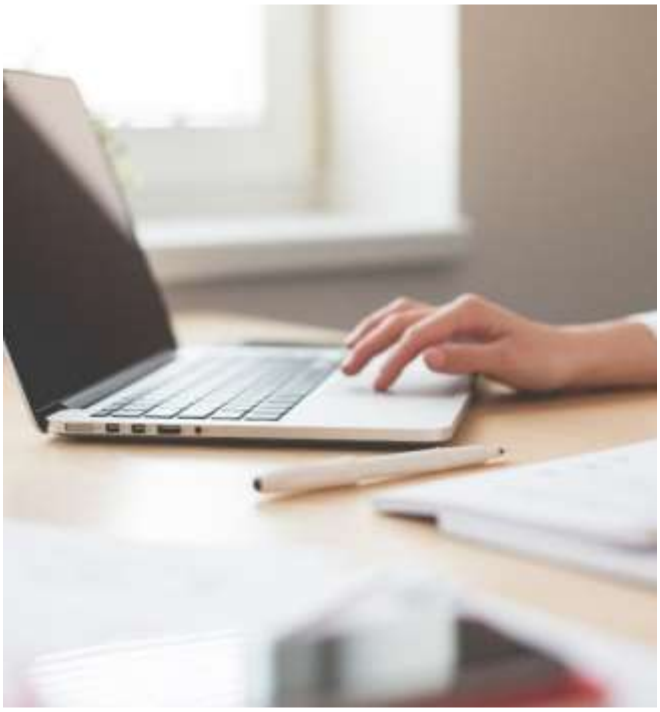
> **"It's important when negotiating the minimum order quantity or value with your supplier to consider any additional freight costs at the same**

e) **Packaging and handling** – if you can purchase inventory that requires the least amount of double handing by your staff before presenting it to your Customers for sale, then you can minimise the labour costs and cash impact of doing it yourself. Buying in bulk often means having to break down orders and repackaging it into smaller quantities. Your suppliers may have the equipment to automate this process for you.

For retailers, there are many suppliers who have developed stands and displays that come pre-made or can be readily assembled with their products already in them. Be sure to ask and take advantage of these offers.

f) **Match warranty and repair conditions** – if the items you sell carry a warranty or you offer a repair service, negotiate equivalent warranty and repair conditions with your supplier. This will mean that you can pass on any returns from your Customers back to the supplier immediately and not be left out of pocket for defective or damaged goods that unnecessarily tie up your cash.

5. Sell 'non-core' assets



The phrase "Non-core Asset" can be used to loosely describe any combination of people, equipment, physical location, business units, products or brands that are not critical to the generation of your primary revenue streams.

The combination is also capable of producing revenue either independently or with the addition of resources from a buyer. There can often be a disparity between what was outlaid originally or invested in the non-core asset over time compared to the ability to generate current day revenues. Buyers will typically be focused on the revenue they can generate to determine the value.

Non-core assets can simply be a single piece of equipment or vehicle that has been sitting idle or is rarely used and may be readily available for hire elsewhere should a future need arise.

Equipment can be readily advertised for sale in industry publications or included in one of the many auctions that regularly occur around the country.

A commercial real estate agent can be engaged to market and sell an underutilised warehouse, factory or office space. Lead times generally exceed those for equipment sales and will require significant investment to vacate, make good and market the property for sale.

Business units, a business within a business, are among the most complicated non-core assets to sell. Operations can be intertwined with other essential business units and key staff.

Buyers may need to integrate additional resources to successfully operate the business unit independently or as part of their wider existing business. Small businesses can turn to a specialist Business Broker and their Accountant to advise on and assist with managing the business unit sale. For larger businesses typically a variety of specialists become involved in multiple disciplines to manage a lengthy due diligence, valuation, negotiation, documentation and sale execution process.

Ultimately the sale of non-core assets is used to inject cash into the business and reduce other debts or cover critical expenses while minimising the impact to existing business revenue streams.

In conclusion

You should have at least three preferred options that can be readily deployed if something happens unexpectedly in your business.

Customer invoice financing is one way to increase cashflow. Would you like to know more?

Contact AddCash Finance to find out how they are helping small businesses with their cashflow every day.

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