Bright ideas for smart businesses
Keeping your cash flowing

A practical resource for small and medium sized businesses
How to do more than survive – **thrive**

Economic downturns are cyclical, and peaks and troughs are a natural part of any business’ life cycle. So it is feasible to expect that at some stage of your business’ life, you will face tough or leaner times as a result of a downturn.

Smart business operators have robust business planning and risk management strategies in place and implement smart credit management practices and protocols to prepare themselves appropriately for a range of eventualities at all times, no matter what the present economic circumstances.

Keeping your house in order all the time by monitoring your financial condition and making effective financial decisions will go a considerable way to ensure your business remains financially viable in both healthy and lean times.

Those businesses who weathered the last major downturn of 1990-91 did so because they were well prepared and had a flexible balance sheet, enabling them to choose the right directions to take when times were tough.

Uncertain, slow or tough times need not be all doom and gloom; in fact many experts send out a very positive message for small and medium sized businesses in leaner economic conditions. When tough times hit you have the ability to be in a much better position to respond more quickly and positively to the economic situation than the bigger players.

So if you do experience quieter, slower, ‘down times’ regard them as ideal opportunities for you to take time out to review your business plans and your operating efficiency and decide where you want your business to be when things improve.

This practical resource will:

- help you gain a clear understanding of the important financial factors that affect your business’ bottom line, both positively and negatively;
- give you simple, useful tips and advice on how to operate productively and profitably in both good and lean times;
- enable you to have a better appreciation of the way your business is performing at any point in time;
- help you make more confident, prudent and visionary business decisions; and
- help you understand the impact your decisions and other business factors have on your cash flow and growth.

Acknowledgements

“This highly useful member resource would not have been possible without the support and invaluable insights from Tony Dormer, MD, Kreston Dormers Chartered Accountants; Simon Spicer, Chief Operating Officer and Finance Director, NSW Business Chamber; and NSW Regional Business Managers David Yeates, John Pearson and Kellon Beard. Many thanks gentlemen.”

Charisse Gray, Senior Business Writer
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Bright ideas for an even brighter future

These practical tips provide sound insights on how to operate productively and profitably in both good and lean times. They will give you a better appreciation of the way your business is performing at any time; help you make more confident, prudent and visionary business decisions; and help you understand the impact your decisions and other business factors have on your cash flow and growth.

**Business Planning**

Take a good, long look at your business plan now – is it robust enough to take you successfully through both sound and lean times?

Make sure you regularly review your business plan – does it have the capacities and the contingencies to withstand unexpected market changes? Does it contain both realistic and worst-case scenario forecasts that set out what you believe will be the case and, against that back drop, how the business will be affected?

Determine which strategy will work best for your business – either focusing predominantly on building and strengthening your core competencies or diversifying, so that in a downturn one segment won’t significantly affect your business.

Consider making strategic changes that would benefit the business financially – for example closing unprofitable stores, restructuring your company or divesting your business of products and services where necessary.

Benchmark your business against your competition and the industry.

Consider if a merger or an acquisition(s) would offer opportunities.

Consider the benefits of outsourcing certain aspects of your business.

Seek advice from the experts. NSW Business Chamber, your accountant or financial planner can all assist you with any number of these issues.

**Cash flow**

Maintain a flexible balance sheet by cutting debt, trimming costs and if possible, building up cash reserves.

Make sure your business remains cash flow positive at all times.

Implement a sound cash flow budget that enables you to forward plan and forecast future business sales and purchases.

Ensure that you have adequate working capital and that it is managed carefully no matter whether you are experiencing a downturn or growth.

If you envisage a strong growth spurt in the near future talk to your bank as soon as possible if you think you may need finance facilities.

**Debt management**

Ensure you communicate clearly to your customers and clients terms and conditions for paying you and the consequences of not paying on time.

If appropriate build into your invoices a (Romalpa) clause that enables you to retain ownership of your goods until payment is received.

Ask new customers for at least a couple of trade references to assess their creditworthiness. If necessary seek additional information so you can make an informed decision, e.g. ask for copies of current financial statements or an external credit check. If the amount involved is significant it may be appropriate to seek director’s guarantees or other security.

Ensure you communicate clearly to your customers and clients terms and conditions for paying you and the consequences of not paying on time.

Remain professional and committed to your credit policy, particularly when a customer deviates from the contractual arrangement.

Address late debts immediately. Letting a debt slide is poor business practice and sends the wrong signal to debtors.

Have a structured program of reminders and updates in the system so that you can send invoices, statements and reminders out on time.

Consider having an in-house accounts receivable capacity, with staff dedicated to chasing debtor payments, or outsourcing debtor management.

Take legal action only when negotiation and discussions fail.

**Customers and clients**

Talk to your customers and understand what is hurting them.

Consider providing your customers with the option of paying in instalments to ease their cash flow problems. This may retain them as customers.

Ensure you are in a position to assess your clients’ or customers’ risk.

Know which of your customers are the most important to your business and which need the most attention and care – look at their size, loyalty, reliability and profitability.

Focus on your most profitable customer accounts and communicate to them individually the solutions your products and services can bring them – e.g. increased profit margins, reduced overhead, greater productivity etc.
Expenses
Look at all possible ways to minimise or streamline your costs right across the business. Review and reduce unnecessary variable expenses. Make a list of all the expenses that are not mandatory obligations – start with luxuries such as travel, entertaining, expensive car fleets and work down from there.

Innovative practices
Consider:
- developing innovative techniques, products and systems; diversifying; product bundling etc.;
- looking for or developing new niches;
- looking for good external partners both as alliances and suppliers;
- leveraging relationships to save money or make money;
- investing in your R&D – if you can afford to do this in leaner times, it should set you up strongly for when times improve.
- turning your assets into cash – selling plant or equipment and then leasing it back, or if you own your premises sub-letting them, or moving to another office and leasing out the entire building.
- looking beyond your comfort zone. Look for new clients in areas or sectors that are less affected by a downturn.

Marketing
Ensure you are up-to-date with the return you get on your marketing spend. Review your marketing plan and evaluate your position in the market; your point of difference; how well you communicate with your clients; and how you manage and review your relationships with your clients.

Ensure that you engage your sales, marketing, finance and operations functions to develop a complete picture that explains why and how customers can benefit from your company’s products or services. This can also be used for recruitment purposes, to show applicants the value of becoming an employee of the company.

Think very carefully before cutting back on marketing – this could result in you losing valuable market share. Instead analyse your marketing budget to determine where you are getting a return.

Finance
Benchmark your business against your competition and the industry – comparing key financial ratios can provide you with a clear understanding of the financial situation of the business.
Review your existing financing arrangements routinely. Make sure the arrangement in place is the best for you under the current circumstances.
Consider how long it will take you to recoup the costs of a major investment; profits will need to be generated for many years for you to recover the initial outlay.
Ensure you don’t over commit your business to a loan that you may have trouble paying if interest rates rise.
Consider the range of finance options available – debtor factoring, invoice discounting, or debtor finance – that can provide an immediate boost to cash flow. Identify and convert to cash any non-core assets to help sharpen focus and strengthen the balance sheet.
Understand and appreciate the importance of break even analysis and modelling the profitability of the business.

Pricing
Manage price structures carefully – this will help to protect and improve both profit and revenue outcomes.

Insurance
Consider controlling debtor risk through debtor insurance, particularly if you have one or two bigger clients that could cause your business major problems if they didn’t pay or were extremely late in paying.
Processes and systems
Check that appropriate and adequate systems, processes and technology (particularly your cost controls) are in place across all parts of the business, and are well managed and efficient.

Have systems in place which are robust and up to date and enable you to capture, manage, measure and analyse all factors that affect the profitability of the business.

Review your purchasing processes – shrink line items such as freight, utilities, telecommunications and office supplies.

Implement ‘Just in Time’ methods to maintain your stock and delivery schedules.

Analyse the service your vendors are currently giving you. Renegotiate arrangements to better address your current needs. Cut out those vendors who take too long to supply, are unreliable, or charge too much.

Consider whether, if you were to implement new applications and technologies, you would be able to offer your customers a wider range of solutions.

Sales
Explore all possible ways that the business can maintain or increase sales.

Focus on your most profitable accounts and communicate to them individually the solutions your products and services can bring them – e.g. increased profit margins, reduced overhead, greater productivity.

Staff
Ensure you have measures in place to attract and retain your key staff.

Make the right staffing decisions for the business, even though these decisions may be difficult.

Ensure you up-to-date with wage cycles, awards, contract negotiations, deductions etc.

Communicate openly, transparently and often about what is going on in the business.

Implement strong and efficient personnel management systems and practices to avoid inefficiency and fraud.

Ask for and take on board staff feedback.

Stock
Ensure that you review your inventory management practices regularly by having the right stock available at the right time, managing stock shrinkage and obsolescence effectively, and reviewing your stock levels and stock turnover regularly.

Keep inventory low. Avoid tying up your cash in items that turn over slowly or may or may not sell at all. Don’t automatically order repeat volumes that may take longer to sell; order more frequently, but in smaller quantities; and review all normal stock levels to see if they can be potentially reduced.

Consider discounting stock which has been sitting around for extensive periods of time, however be careful not to dilute your brand in the process.

Pay only for warehouse storage space that is required; determine whether there is an effective way to eliminate or reduce warehousing costs.

Review your delivery method and costs regularly.

Be up-to-date with purchasing and payment terms and conditions.

Establish inventory targets and make sure the sales and purchasing departments communicate with each other.

Determine whether an item can be sourced somewhere else at a better price.

Sell less stock at sustained prices to avoid shrinking margins and unprofitable sales. This is preferable to drastic cost-cutting which can cause long-term damage to your brand and price positioning, and can also cause competitor pricing wars.

Rethink your product mix by getting in touch with your customers’ needs. Stock your shelves with only high demand items. Determine if your consumers are primarily price or quality driven and select more products that meet their needs and will sell quickly.

Look carefully at the margins individual products attract and the marketing spend each product needs.

Risk management
Assess how financially exposed your business is and review this routinely.

Ensure your business is adequately prepared against exposure to impending business risks and liabilities including litigation, loss of IP, loss of ownership etc.
A checklist for good cash flow management

- Have a properly structured balance sheet that has all the detail, from inventory and debts to interest costs.
- Know your business’ balance sheet back to front and understand the numbers.
- Review your P&L statements comprehensively at least quarterly and preferably monthly to identify trends and track progress against budgets and targets, whether or not times are/have been good.
- Know where every dollar and cent is being spent. Every $ saved is a $ straight on to the bottom line, whereas a sale carries with it direct costs and overheads.
- Keep a close eye on margins to ensure costs aren’t creeping up.
- Construct a useful cash flow projection, which is your ‘best guess’ at the business’ cash inflows and outflows over a period of time. Review and adjust this regularly.
- Work with your accountant. Depending on your specific situation he may recommend doing cash flow budgeting on a weekly, monthly or quarterly basis, and advise you on a range of issues including which invoices you should pay and who will pay you.
- Keep good records of supplier transactions – this will give you better leverage in negotiating more favourable terms and prices.
- Seek tenders from alternative suppliers regularly.
- Get the payment cycle right for creditors and debtors.
- Update and review your business’ cash flow budget regularly using conservative revenue and expense estimates. This will forewarn you about potential cash shortages. It will also help build your business’ credit track record.
- Don’t just focus on your business’ profit and loss statement to the exclusion of all else – be aware that healthy profits can mask a developing cash flow crisis.
- Keep your working capital/business bank account separate from your personal bank account.
- Avoid giving family members credit cards on the business account.
- Use purchase orders to reduce discretionary staff spending.
- Draw a wage or salary for yourself rather than just drawing on the account for personal expenses as needed – this can be unmanageable, time consuming and costly.
- Be aware that rapid growth can often result in a cash crunch.
- If your business has a floating interest rate loan talk to your accountant about the benefits of locking in your loan’s interest rate for a defined period to avoid the impact of increased interest rates.
- Consider the benefits of protecting your bottom line profitability and minimising the impact of additional interest costs by passing any costs on to clients/customers as they arise.
- Check all supplier invoices carefully for accuracy.
- Spread the payments of invoices over the month when payments actually fall due rather than having one day per month designated to pay invoices.
Brilliant insights from member company, Architectural Sign Industries

An innovative signage company that manufactures awards, badges, engravings, Honour Boards, signs, desk accessories, and digital printing.

Millar McCowan, MD, shares his insights....

*Debt management and collection are extremely important. Be aware on a day to day basis what money is going in and coming out. Employ a part timer to chase bad debt and don’t be afraid to use threatening letters or even debt collectors.

*These days you can’t afford to let money blow out to 60 or 90 days as it is getting harder to come by. There is no use being the nice guy who is last to get paid and misses out altogether. The recent debacle as a supplier to Firepower re-inforced that message for me. I didn’t follow my own advice and got stung.

*Diversify if necessary but don’t stray too far from the core business. At least if one area of the business is flat another area may be busier. In tight times you still need to market the company. It doesn’t mean big dollars but you have to keep your name out there.

*It’s crucial to have a good relationship with the bank and a good relationship manager. They may be able to offer a short term solution that you may not have thought of.

*I generally review my detailed business plan with a business coach once a month. I consider this extremely important to retain focus.

*I recommend monitoring your bank accounts every day – this gives you a good overview of where you are at. It also makes it easier to find any anomalies looking at a smallish daily report than large weekly/monthly. I also run monthly line item P+L’s etc.

*I also have a GST offset account that has a nominated amount automatically deposited weekly. This ensures that come time to pay BAS I have enough cash. I usually accrue extra in this account as a kind of ‘rainy day’ measure and transfer funds back into the trading account. This account is also linked to the business loan and offsets against the interest.

“Make it as easy as possible for the customer to pay. Credit/Debit cards are a must – everyone has them and likes to accrue points. Possibly waive the credit card fee if payment is made within a certain period. Ensure your clients know your bank account details for direct payment. If possible allow for payments through web site.

“Controlled growth is critical to cash flow - badly handled, regardless of how big your sales are or will be, means the business will fail. This is all part of the business plan review by setting small targets over a period of time. Unless you have access to major funds, including working capital, by taking small steps it may take a little longer to get there, but you have a better chance of survival. Taking a giant leap you really don’t know where you are going to land. We have all read recently in the papers of companies who have had sudden massive growth and then imploded.”

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How to manage your cash flow efficiently

Does any of this sound familiar?

The monthly wages bill is due, anticipated stock has not arrived to fill customers' orders, a critical piece of machinery has broken down requiring replacement, your biggest debtor is taking their time to pay and you have an unexpectedly large tax bill to pay within the month. There is a good possibility that your warehouse and plant rental may be soon increased, the slowing economy is causing a decrease in sales and it's harder to collect outstanding accounts. Your accounts receivable has increased dramatically.

Any of these issues may have given rise to the concern that there's not enough cash in the bank to pay upcoming bills, even though you have had good sales and are operating profitably.

Situations like this may only be a temporary cost hump, but good cash flow management ensures that your business always has enough cash to meet expenses when they need to be paid, even when they are unexpected. It will also help you to budget for anticipated interest rate rises, project how much in borrowings your business will need and how much debt it can afford.

Cash flow is a litmus test of a business' health – you can be making a profit on paper and still have a negative cash flow. Without sufficient cash coming in each month to pay for the following month's stock and wages, your business will be in trouble. Profit is important in the long run, but your business may not be around in a year's time if its cash flow isn't managed appropriately now.

It is absolutely critical to keep a vigilant eye on revenue, cost structure, the quality of your business plan, and your capital structure to make sure your business remains cash flow positive at all times. When times are tough you may find that it will be necessary to extend your payment terms, so cash is going to get tight. If you hold more of your assets in cash you will have a better chance of surviving a downturn.

"Profit is important in the long run, but your business may not be around in a year's time if its cash flow isn't managed appropriately now."

Having adequate working capital is really important at all times and managing this capital carefully is just as critical if you are experiencing a downturn or growth. In fact, rapid growth can just as likely result in a cash crunch.

If you envisage a strong growth spurt in the near future it is wise to talk to talk to your bank earlier, rather than later if you need an overdraft.

As your business grows you will probably find you are busy chasing sales and new clients and it is easy for your stocks to be running down and your debtors not being chased. Strong sales this month can often mean a cash shortage next month. This is why it is imperative to understand the consequences of growth and carefully monitor your business cash status.

Implementing a good cash flow forecast

A cash-flow forecast, sometimes called a budget or projection, is a key diagnostic tool that enables you to forward plan and forecast future business sales and purchases. It shows all incomings and outgoings, which should represent a 'best guess' of your business' cash inflows and outflows over a period of time. Being forewarned is forearmed. If you are alert to the issues early enough you have the time to be able to adapt.

A cash flow forecast can also help businesses avoid growth pains by highlighting the need for increased capital expenditure and the imbalance to cash flow that comes from an increased debtor book. As well as forewarning you about potential cash shortages, it will also help build your business' credit track record. This is useful information when asking banks for credit.

www.mindtools.com/pages/article/newTMC_06.htm

Disciplined processes

You must have systems in place which are robust and up to date and enable you to capture, manage, measure and analyse all factors that affect the profitability of the business. If you are in a business where your goal is to get the job done on time, on brief and on budget, disciplined processes are critical.

"Cash flow is a litmus test of a business' health – you can be making a profit on paper and still have a negative cash flow."

These processes should enable you to undertake a cost benefits analysis by placing value on each job by measuring the time that is outlaid on each aspect of the job against what you are getting out of it. This then needs to be measured against your targets or budgets allowing you to identify what, and where, the results don't match your targets, what needs to be dropped and what needs to be better managed. It will also highlight your most valuable customers and the most profitable parts of the business.

http://management.about.com/cs/money/a/CostBenefit.htm

Regular review of your business plan

Reviewing your business plan is an important management function and integral to astute business decision-making. It must be a realistic appraisal if you are to be able to easily adapt to changing circumstances. Planning documents are never 'set in cement!' Frequent reviews are productive at any time, especially with the vagaries of the economy, but are even more valuable in more difficult cash-strapped times. You need to ensure that you are still on track, especially with your budget, which in essence defines the boundaries of your business' capabilities.

When you review your business plan check that it has the capacities and the contingencies to withstand unexpected changes in the market. To better protect the business' position consider getting the buy in from company directors, key investors and your accountants. This not only gives them a better understanding of how your business is coping and how it can, and will cope with changes, but it gives them a sense of responsibility in planning for the future.
Feedback from your staff, particularly your field force, and from your customers and clients can often be useful.

Plans should contain both realistic and a worst-case scenario forecasts that set out what you believe will be the case and, against that back drop, how the business will be affected. Setting out a worst case scenario – showing how you are giving yourself plenty of room to move – can assist you to manage the expectations and boost the confidence of your board members, investors and bank.


Involving the bank will give them the confidence that you have got everything under control and you are budgeting sensibly for the year head; and will make it somewhat easier if you decide to seek an overdraft facility or an increase in your credit facilities.

Benchmarking your business against your competition and the industry.

Are you charging enough or too much for your products/and or services? Do you know the important measures and ratios for your industry? Are you aware of your competitor’s average bottom line? Do you know your gross profit margin and your net profit margin? Are you paying more than you need to on your rent, advertising or marketing? Are your staff costs too high?

If you regularly benchmark your performance against your competition and the industry averages you would know the answers to these questions and be in a strong position to improve the financial performance of your business. Benchmarking takes financial figures and converts them into ratios, which allows you to compare your results to those of your competitors. These figures are usually expressed as a percentage of sales or profits, before abnormal items are taken into account.

A detailed benchmarking analysis can provide you with financial details and ratios that can relate to administration, physical office or warehouse space and costs, staffing, your products and services through to how much of the budget is spent on advertising and marketing.


The importance of understanding......

The difference between gross profit and margin.

Margin is measured as ratio, profit as a dollar amount. In both cases, they measure the difference between cost of materials and revenue. Gross margin/profit do not consider the cost of doing business (i.e. payroll, taxes, etc). In retail, margin represents the mark up from wholesale.

the difference between mark up and margin.

Mark up is the difference between the cost of goods and what you are asking to sell the goods for.

Margin is the difference between the cost of goods and what you actually sell it for.

“Your business could be turning over a lot of money — but, in fact, running at a loss.”

Break-even point

The break-even point is where profit starts. Every business needs to know how many sales have to be made before all the expenses are covered and actual profit begins. Your business could be turning over a lot of money — but, in fact, running at a loss. This is where a simple calculation, the break-even point, is used to find where profit really starts.

Break-even analysis: To find the break-even point a calculation called the break-even analysis is used. This is just an estimate, because in reality calculating an exact break-even point is complicated.

Using the break-even analysis to calculate the break-even point

To do the calculation, we’ll use three figures from an average month’s sales, extracted from the twelve-month statements of profit and loss, and cash flow. The following table defines the terms using a coffee shop as an example.

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<th>Description of terms used to calculate break-even</th>
<th>Example: coffee shop</th>
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<tr>
<td><strong>Average total revenue per unit</strong></td>
<td>This is the price you charge the customer for each sale (or hour of service for a service provider) before you deduct any of your costs to produce it.</td>
</tr>
<tr>
<td><strong>Average per unit cost</strong></td>
<td>What it costs to make each unit (a unit can also be an hour of service) once the business is set up and ready to produce and sell it. The per unit cost includes the materials and direct labour costs. The cost doesn’t consider complicating factors such as savings made from buying materials in bulk.</td>
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<tr>
<td><strong>An average month’s fixed running costs</strong></td>
<td>The costs for an average month for lighting, insurance, wages, office stationery, rent, interest payments. These are basic running costs you have to pay in an average month to be able to start producing and selling the very first item of anything.</td>
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The formula is: break-even point (number of units to sell) = \( \frac{\text{Average month's fixed costs}}{\text{Unit selling price} - \text{cost to produce}} \)

Example using the figures from the coffee shop:

\[ \text{B/E} = \frac{5000}{5.00 - 2.00} \]

\[ \text{B/E} = \frac{5000}{3.00} \]

\[ \text{B/E} = \frac{5000}{1} \]

\[ \text{B/E} = 5000 \text{ units} \]
## Factors that affect cash flow

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<td><strong>DEBT CONTROL</strong>&lt;br&gt;Do you have a plan and systems for debt control?</td>
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<td><strong>LIABILITIES</strong>&lt;br&gt;How can you limit your exposure to your liabilities?</td>
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<td><strong>MARKETING</strong>&lt;br&gt;What return on investment do you get with your marketing?</td>
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<td><strong>BUDGETING</strong>&lt;br&gt;How often do you review your budgets?</td>
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<td><strong>Employers</strong>&lt;br&gt;– Retention&lt;br&gt;– Wages cycles&lt;br&gt;– Correct Awards&lt;br&gt;– Deductions&lt;br&gt;– Statutory Remittances</td>
<td><strong>BUSINESS PLAN</strong>&lt;br&gt;When was the last time you read or updated your business plan?</td>
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Brilliant insights from member company, Park Beachside

Park Beachside is one of the fastest growing real estate firms on Sydney’s eastern beaches. They provide both rentals and sales services, and are one of the leading agents in the Eastern Suburbs for online auctions. Park Beachside is a family business which started in the 1990s and has gone through a learning curve on running a business as they have grown.

Dirk Hertford, General Manager, shares his insights...

“When Park Beachside first started we weren’t very sophisticated with cash flow management, it was just money in money out. Over the years we’ve learnt a few techniques that have allowed us to grow the business faster than would have been possible otherwise.

“In real estate our sales commission is delayed, as we don’t get paid until settlement of a property. We’re working for a few months on a sale before we actually see any money, and with off-the-plan developments it can be years.

“Limiting expenses and increasing income goes without saying. Cash flow management is about getting your timing right. Whenever we set up a new account for a good or service we push for the best payment terms, such as a credit account for 30 days. Suppliers who give credit are preferred over those who don’t. Any large expenses, such as insurance, we organise as monthly payments rather than annual payments.

“When we are paid we leverage the money coming in. We make early payments to those suppliers who give discounts for early payment and have an interest bearing account to generate some extra income while we’ve got the money.

“We have a cash flow projection and while it can’t be precise, as it’s predicting the future after all, it does give us the right focus.”

“Get into the habit of (regularly) reviewing cash flow management, which is a fancy way of saying work out when, (and how), to make payments (that work in the best interests of your company).”

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cogee@parkbeachside.com.au
www.parkbeachside.com.au
Can you give your business a health tick of approval?

If you can’t answer ‘yes’ to the questions below it is recommended that you discuss them with your accountant.

<table>
<thead>
<tr>
<th>Question</th>
<th>Please tick if ‘yes’</th>
<th>Please tick if ‘yes’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you have a solid receivables process in place characterised by:</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– the establishment of clear credit terms at the beginning of the relationship;</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– prompt issuing of invoices;</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– tracking of accounts receivable to identify slow-paying customers;</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– regular communication with customers to identify and resolve problems before invoices become overdue; and</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– the ability to be advised as to when to take action against a debtor who is persistently overdue?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you have enough working capital available all through the year?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you review your cash flow regularly?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you have a solid receivables process in place characterised by:</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– focuses on the items that affect your cash-flow most, enabling you to add extras for seasonal or financial changes if required;</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– ensures procedures for collecting and reporting cash-flow data are consistent across the business; and</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>– enables you to measure your forecasting accuracy and report on the variances?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you manage and control credit effectively so that you aren’t paying fines or penalties for late payments?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Are you being paid correctly and on time all the time?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you manage your tax payments appropriately?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you have an adequate accounting system?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you check your budgets regularly?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Have you a cash flow budget that not only shows all incomings and outgoings, but also represents a ‘best guess’ of your business’ cash inflows and outflows over a period of time?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Can you identify both set and variable costs, potential shortfalls, and payment histories?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you take into account your customers’ payment histories when developing your cash flow budget?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you regularly review your budget using conservative revenue and expense estimates, enabling you to be alerted early to potential cash shortages?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you get credit ratings upfront on all potential customers?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you consider all defaults when undertaking a customer credit check?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Do you take the time to gain an insight into the financial health of all your customers’, including their debt paying ability and payment behaviours?</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Learn more about your business

NSW Business Chamber’s Business Vitality™ Check is a confidential and easy to use online diagnostic tool which will diagnose your business in the following five key areas:

> Customer management
> Strategy and planning
> Marketing
> Finance
> Operations

On completion of the diagnostic, you will receive a report covering the health of your business including benchmarks and recommendations.

If you are a member of NSW Business Chamber, you are also entitled to a free business health check called Business Vitality™ Express Check. Call 13 26 96 for more information.
How to manage debt effectively

Competing business pressures often make the task of debt management run a poor last to other management functions. Yet this task is one of the most critical keys to managing cash flow. Just how efficiently you can minimise the lag time in your business between purchasing product, and/or manufacturing product, and/or providing services, then billing the customer and finally collecting payment, is critical to your liquidity.

This lag time can cause significant problems, draining your funds, time, resources and personnel required for the day-to-day running of operations. And everywhere in this cycle you have to have working capital available to continue to operate and pay staff and draw a wage yourself.

In leaner times debtor management should be at the top of your list of items for review. Keeping debtor days to an absolute minimum is crucial, particularly as clients start putting on pressure to extend payment terms.

Though it is not possible to totally prevent bad debt, if your business has clear and concise processes, procedures and checks in place and these are documented, you are in a stronger position to ensure your business isn’t badly affected by bad debt.

Your credit management system should enable you to easily identify who are your slow paying clients and their credit worthiness; and credit check potential customers and screen out the risky ones.

It should have a dated record of all transactions and include customers’ reasons for late payment and when to expect payment.

If you don’t have an in-house accounts receivable capacity in your business, determine how outsourcing debtor management services fit into the bottom line. Weigh up the cost of the service balanced against the prospect of improved payment rates and the convenience of somebody else managing your debts.

Tips for chasing debts more efficiently

> Invoice by email rather than post – this is faster and provides your customers with online records.

> Invoice as close as possible to the time you supply the goods or services, leaving less of a lag time between provision and invoice.

> Make it easy for your clients to pay you directly by crediting your account online.

> Consider the benefits of offering incentive options like small discounts for early or prompt payments.

> Chase overdue invoices at least monthly.

> Have in place a system which flags outstanding invoices and attend to them as a matter of priority.
Tips for motivating clients to pay

Consider offering:

> a tiered repayment structure. Discounts can be scaled, so the earlier the repayment the bigger the discount, or further discounted over time for selected customers as a reward for prompt payment.

> other benefits for prompt payment such as a higher level of post-purchase service or priority access to new stock.

> the ability to pay in instalments. This will assist your customers with their cash flow while giving you some increased security.

> debtor insurance, invoice discounting or debtor finance for your bigger clients, and those that you are particularly dependent upon for income.

To discount or not?

Tip: Do your research before offering a discount. Calculate what the credit extended to customers costs your business in interest or lost opportunities, and compare that to the margin a discount will knock off your debtors book.

Methods to ensure prompt payment

1. Your debt collection policy
   
   Have in place a clearly articulated and documented policy which explains how to:
   
   > determine if a customer deserves credit, and on what terms this should be provided;
   > determine if security is needed for credit;
   > determine if credit should be provided should the customer’s trading conditions change;
   > follow up and collect debts and the terms for enforcing payment;
   > enforce the terms for payment; and
   > offer discount incentives for early payments.

2. Documentation for quotes and orders should:
   
   > clearly outline your terms and conditions, and
   > record all aspects of the transaction to avoid disputes on any aspect of the order which could cause a delay in payment.

3. The credit application form for new customers should:
   
   > have these terms and conditions articulated clearly so the customer is aware of them from the start of trading.

4. When signing up a new customer:
   
   > be vigilant in obtaining credit information, verifying it and documenting signed guarantees;
   > provide the customer with a copy of your terms and conditions and gain acknowledgement that they read, understood and agreed to be bound by all aspects of the terms.
   > build their profile and details into a structured program of reminders and updates that ensures paying their bill remains on their radar.
Brilliant insights from member company, Pendragon

Pendragon, founded in 1998, provides products, solutions and services for individuals and businesses in immigration, contractor management, salary packaging and recruitment.

John Glover, MD, shares his insights...

“We understand the importance of streamlining costs and managing cash flow, particularly as invoicing, debt collection and payroll underpin our company’s services.

“A key policy is to constantly review your profit and loss statements - not only looking at your cash inflow, but also your accruals. This will ensure that you account for the money that is not yet received, and evaluate where the common cash flow pitfalls are. You can then adopt strategies in your everyday processes to overcome this, and become more effective in your cash flow management.

“Debt management and collection is a department in a business on its own. The system that monitors the inflow of cash is a process that needs to be managed and reviewed regularly, particularly when times are tough. Ensuring that the system is standard and understood by all staff members is key to ensuring that your policy resonates through to clients and customers. Reminders need to be implemented and followed as a clear-cut debt collection process, ensuring that it is re-examined and evaluated as often as required.

“Managing the business’ growth is a strategic operation on its own, whereby cost control, innovation and plans are evaluated to ensure that growth occurs at a reasonable pace that is sustainable and proportionate to the business size. It’s very important not to adopt a premium pricing strategy if innovation is not kept up to speed, or adopting a cheaper pricing strategy that may cause problems with volume. It’s essential to evaluate growth and cost strategies in line with your key marketing message.

“The key to a successful cash flow management is ultimately time management. Ensuring that systems are in place and understanding how best to utilise all resources is important to managing the growth of the business, and hence controlling cash flow. It’s imperative to also focus on the product or service that is generating this, and once this has generated good return, you can then look at your other products or services and concentrate on improving them.

When times are tough, it is hard for business owners to focus on the line of business that brings money in, as it may not necessarily have been the product or service that founded the business in the first place, or the most established service. It’s important to accept change and follow market trends, which may initially affect cash flow, but can ensure good returns if systems are constantly reviewed and analysed as a way to positively grow the business.”
Where to go for help

This resource is a guide to many of the intricacies of good cash flow management practices. NSW Business Chamber recommends that if you have concerns or questions about any aspect of managing your business’ cash flow you should seek the assistance of an expert like a Chartered Accountant or Financial Planner.

NSW Business Chamber has developed the Business Vitality™ suite of products to help businesses succeed in all market conditions. It includes:

### Business Vitality™ Check

A confidential and easy to use online diagnostic tool which will diagnose your business in the following five key areas:

- Customer management
- Strategy and planning
- Marketing
- Finance
- Operations

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### Business Vitality™ Plus

This three month improvement program is delivered by a specialist advisor and is designed to complement Business Vitality™ Check. Your advisor will work closely with your business to help you:

- identify key improvement activities that will add the most value to your business;
- develop a detailed action plan to achieve your objectives; and
- implement the action plan and take your business to the next level.

### Business Vitality™ Tools

**Business Vitality™ Tools — Business Planning CD** will assist you to review your performance, identify opportunities and gain competitive advantage by steering your business towards a clear vision. You will benefit from the tools, templates, checklists and worksheets which require you to analyse and sensibly plan to realise your strategies; the detailed information identifying key operational, financial, HR, sales and marketing issues that you need to consider to ensure maximum productivity this year; and the valuable 'how to' commentary to ensure you create a practical business plan.

**Business Vitality™ Tools — Marketing CD** provides a series of tools, articles and checklists, so you can take your marketing activity to the next level and really make the most of your spend. It will help you to launch effective marketing campaigns on budgets of all sizes and manage your customers through the sales pipeline.

For more information on the Business Vitality™ suite call 13 26 96 or visit www.nswbusinesschamber/businessvitality
Educational seminars and workshops

NSW Business Chamber regularly runs educational seminars and workshops around topical business issues which are impacting businesses around our state. These events are not only a source of practical and useful business information for owners, operators and managers of small to medium sized business, but are also a wonderful opportunity to network.


Enterprise Connect

This business review and improvement program is specifically designed to help small and medium sized business owners acquire the knowledge, tools and expertise to improve productivity, increase competitiveness and fully capitalise on their growth potential.

Under this $200 million Australian Government initiative, highly skilled Business Advisers deliver integrated, practical services, at no financial cost to the business, through a national network of Enterprise Connect Manufacturing Centres.

Eligible small and medium sized businesses will be matched with an experienced Business Adviser who will work with the business to:

> Understand the business’ strategy and business operations;
> Identify strengths and opportunities, including benchmarking against best practice;
> Assess potential areas for growth and improvement; and
> Help firms access world-class business tools, processes and technology.

For more information on the program and the simple fast application process visit www.enterpriseconnect.gov.au or phone Phillip Waite at Enterprise Connect on 0294587458 or Mobile 0417277171.

Regional offices

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Sources and acknowledgements

- AAP Medianet
- Burning-pants.com.au
- Businessspectator.com
- Dun & Bradstreet
- John Glover MD Pendragon
- Millar McCowan, MD Architectural Sign Industries
- News.com.au
- Plugger.com.au
- Tony Dormer, MD Kreston Dormers Chartered Accountants
- Roy Morgan Research
- Sensis
- Dirk Hertford, GM Park Beachside
- SmartCompany.com.au
NSW Business Chamber represents over 30,000 businesses in NSW and connects over 100,000 businesses across Australia through the State and Territory Chamber Network.

NSW Business Chamber’s purpose is to champion the cause and growth of business. Through research, knowledge and policy achievements, we offer solutions that stimulate business growth nationwide and globally.