

The seventh cause of poor cashflow – Sales levels are too low



It might sound obvious, but it isn't to many businesses. If current sales levels don't support the overheads and other cash demands on the business, then your overdraft will keep increasing.

This means that your business in its current state is not viable (unless you have ongoing access to new funds from investors or financiers).

There are five ways to improve your sales levels. These are:

1. Increase customer retention.

Stop your customers from defecting to the competition.

2. Generate more leads.

Gain more enquiries from people who are not yet customers.

3. Increase your sales conversion rate.

Get more of your prospects to buy from you.

4. Increase transaction frequency.

Engage your customers to buy from you more often.

5. Increase transaction value.

Help your customers to buy more products or services from you.

There are literally hundreds of individual strategies that you can implement within these categories to increase sales. Sending you a list would be pretty silly of us and overwhelming for you. Some strategies don't apply to your industry, and some just won't work in your business for whatever reason.

What we have found through experiencing a wide range of client situations over the years, is that certain things do work in each type of business. There's a pattern that we see in clients – both good and bad! How does a business grow its sales without its owners becoming overwhelmed by a mountain of change?

The best and most supportive way to grow and improve a business is to have someone looking over your shoulder from time to time, helping you build a plan and a forecast, and keeping you accountable to making the changes that will make the most important differences.

Without that support, we all end up *in* our business and never working *on* it. Talk to us about how we can provide that support.

The sixth cause of poor cashflow – Overheads are too high



Overheads isn't typically a place where you will find a lot of wastage. Our experience is that business owners are very careful about managing their expenses, and the smaller the business, the truer that statement is.

Having said that, as a business grows, so do the layers of hierarchy. Management control can deteriorate, and the business can become a bit flabby. The trick is to trim the fat but not the muscle when evaluating your expenses.

As an absolute minimum, every business should do a thorough review of its overheads at the same time every year, so that it becomes a natural routine.

Here are some questions to ask yourself:

1. Do appropriate managers and key staff have individual expense budgets? If so, how are these managed?
2. Have you conducted a formal review of all debt service costs and related fees?
3. What policies and cost control processes are in place for sales staff? Include all working away allowances, vehicle reimbursement expenses, entertainment, and credit card use.
4. What was your total marketing and advertising spend for the last 12 months? Have you analysed each component of spend based on effectiveness and results to the business?
5. When was the last time you renewed your IT support contract? Have you negotiated a fixed monthly fee? If so, is your current fee and contract appropriate

(consider migration of services to cloud)?

6. List all subscriptions you pay monthly for SaaS cloud services. Are you using all these services and on the right plan for each? Conduct a cost-benefit analysis.
7. And finally, do you consider your accounting fees a cost or an investment? If they're a cost, you need to reduce them. If you're getting value from your annual spend with us, maybe you should invest more to get better business outcomes!

Best practice for keeping control over spending is to set budgets and monitor them monthly. Talk to us about the best way to do that. We can show you the impact reducing your overheads can have on your cashflow.

The fifth cause of poor cashflow – Gross profit margins are too low



Your gross profit margin is what is left from your total sales after variable costs are deducted.

For example, if you are a retailer and your sales in a given period are \$1,000,000 and the cost of the goods you sell in that period is \$650,000, your gross profit margin is \$350,000,

or 35%.

In the above example, if you implement some strategies to improve the margin from 35% to 39%, your gross profit will improve from \$350,000 to \$390,000. That's an increase in profit of \$40,000. You may need to increase your overheads a little to get that increase, however if you get the results, it will be well worth your investment and energy.

There are many ways to lift gross profit. Some will be appropriate for your business, and some won't. For example, if you're a retailer, you could focus on reducing stock shrinkage and theft, avoiding some discounting, and making sure you minimise obsolete stock.

If you're a contractor, you might focus on rework and wastage, ensuring all work and materials on jobs get billed, and team member productivity.

We can help you to determine the best strategies to lift your margins. We can then run your figures through our Cashflow & Profit Improvement Calculator to show you the impact of seemingly small changes.

Don't let poor margins destroy your cashflow and working capital. Get some help from us to make a better plan.

The fourth cause of poor cashflow – Your debt or capital structure



Often a reduction in interest charges as well as significant cashflow improvements can be achieved with a regular review of existing debt.

A good place to start is to list all bank loans, mortgages, finance company loans, hire purchases, credit card debts, and any other debts (don't include amounts owed to suppliers in this list).

Add columns to cover:

- The amount of the debt owed
- The interest rate being charged
- Whether the interest is charged on a fixed or floating rate basis
- Repayment terms (the number of years the debt is to be repaid over)

Perhaps your debt can be consolidated, financed by one lender and paid off over a longer term. This will help you retain more cash in the business which is vital for growth (or even just to cover expenses and your drawings).

Are the drawings you take from the business for personal expenses placing pressure on cashflow? If so, that might mean that we need to look at strategies to lift the profitability of the business. It might mean that your drawings are just too high for the business to support right now. The business may need an injection of capital to fund its growth.

Here's an interesting exercise for you to do. List out your annual personal expenditure in detailed categories; everything from rent, childcare, groceries and eating out. You may need

to prepare yourself for a shock. If you're serious about this, we have a Personal Budget Template that you can use to make life easier.

Getting your debt and capital structure right makes a big difference to the cashflow in your business. This is a subject that we have a lot of experience in. The first step is to prepare an updated personal budget and a Cashflow Forecast, then measure the extra cash the business will have as a result of making some simple changes. We can help you calculate this extra cash at our Cashflow & Profit Improvement Meeting.

Doing a forecast for the first time seems scary, but once you've done it, you'll realise that it's one of the most essential business tools you'll ever put in place. We can do the forecast with you. You'll sleep better for it!

The third cause of poor cashflow – Your stock turn



Carrying stock for too long means full shelves but an empty bank account. Similarly, if you're a service provider and are taking a long time to bill for your services, then you're carrying too much stock in the form of work in progress. Consider that work in progress a form of virtual stock.

You can calculate your 'stock turn' by taking your cost of sales from your annual financial statements and dividing it by your average inventory (or work in process). Most clients need some help from us to work this out, so don't worry if you don't understand straight away; we'll show you. Expected stock turn rates vary from industry to industry, so it's important you don't compare your stock turn to other types of businesses.

The key is to convert stock to cash faster. Ask yourself these questions, just for starters:

1. Do you have a stocking strategy? Do you determine safety stock, desired stock levels, and re-order points for each stock category?
2. What software do you use to measure how much stock you have on hand at any given point in time?
3. What clear policies do you have to ensure you have no slow moving stock items?
4. How much is stock shrinkage (theft, damage) costing your business?
5. Do you have a formal stock ordering system so that stock levels don't blow out?

These are just some of the ways to improve your stock turn. If you think your stock levels might be stifling cashflow in your business, make a time to see us.

At our Cashflow & Profit Improvement Meeting, we'll use our calculator to show you how much cash you can unlock in your business by reducing stock turn with a simple action plan.

The second cause of poor cashflow – Your accounts payable process



The second cause of poor cashflow relates to when and how money is spent in your business, and includes your Terms of Trade with suppliers.

Do you have spending budgets in place?

It's best practice to prepare an overall business budget every year, usually before the beginning of the new financial year. It's also best practice to make sure that team members with the authority to order products and services are doing so within the parameters of an agreed budget, and that controls are in place to ensure that department spending budgets are not exceeded.

Now is a good time to review (and document) your Accounts Payable process, from ordering right through to making payment.

When was the last time you reviewed your suppliers' Terms of Trade and prices?

Terms such as payment expectations, discounts for early payment, late payment implications, insurance, and warranties are all worth a closer look. What controls are in place to ensure supplier payments are made on time and discounts for

prompt payment are maximised? If you're not paying suppliers on time, you need to look at freeing up cash in other areas to ensure you're meeting your payment terms.

Have you recently evaluated the pricing of your current suppliers and compared this with competitors' prices? Your evaluation should include delivery charges, payment terms, and discounts.

There are many more strategies you can employ to minimise the risk of fraud and human error, maximise prompt payment discounts, and build strong relationships with your suppliers.

Talk to us about your accounts payable processes. At a Cashflow & Profit Improvement Meeting, we can show you how to improve your accounts payable processes to manage your cash outflows more effectively.

The first cause of poor cashflow – Your cash lockup



There's a massive difference between profit and cashflow. Profit increases when you create an invoice for work you've done or goods you've sold; cash increases when you bank the money.

Your lockup equals the cash that isn't in your bank account because it's either in work in progress (you've done some work but you haven't yet billed for it) or you have billed your customer but are waiting to be paid.

There are two key processes that need to be improved to reduce the cash that's stuck in your lockup. Within each of these two processes, there are countless strategies that can be put in place to put more cash in your bank account.

Billing

The earlier you invoice a customer, the faster you'll get paid. How quickly after delivery of a product or service do you bill? Do you carry significant work in progress because your service spans several weeks or even months? If so, should you consider progress billing on a regular basis?

Collections

You've done the work, you've billed your customer, now it's time to get paid.

Do your customers sign off clear Terms of Trade before they do business with you for the first time and are there clear expectations as to when an account is due for payment? Is that 14 days after invoice? 7 days? Shorten up that timeframe and your cash lockup will go down significantly.

How easy do you make it for customers to pay? Your invoices and statements should contain a link to pay immediately online or at least state your bank account details and due date.

Do you provide multiple payment methods to customers? For example, direct debit and credit, credit card, Eftpos, debtor finance (where appropriate). Do you offer a small discount for prompt payment? Customers love discounts.

These are just some of the process changes you can consider to reduce cash lockup. There are dozens more. Talk to us about

our Cashflow & Profit Improvement Meeting. We'll show you what's possible – in cold hard cash of course!

Cashflow freedom – The 7 causes of poor cashflow



Cash is the lifeblood of any business. Even profitable businesses can and **do** fail because of poor cashflow.

What's important is that you understand your key cashflow drivers. Improving cashflow is often all about changing your processes. Processes such as how you order stock and pay for it, how you bill for your services, and how you make sure you get paid by your customers.

Treating the symptoms of poor cashflow without fixing the underlying causes is time-consuming and frustrating.

Inadequate cashflow is a symptom of management problems in a business, NOT the cause. In order to fix these underlying causes, you need to be willing to make the necessary changes. You'll build a much better and valuable business, as well as improving your cashflow.

While there are many causes of poor cashflow, most of these relate to one or more of the following seven categories.

1. Your cash lockup.

By lockup, we mean the cash that isn't in your bank account because it's work in progress (work you have done but not yet billed for) or you've billed your customer but are waiting for payment.

2. Your accounts payable process.

If you don't have spending budgets in place and aren't taking advantage of the best possible supplier terms, your cashflow will be impacted.

3. Your stock turn.

If stock is moving too slowly, it will take longer to turn the stock you have already paid for into cash.

4. The wrong debt or capital structure.

For example, if your loans are being repaid over too short a term, this will place a big strain on cash reserves.

5. Gross profit margins are too low.

Your gross profit margin is what's left from sales value after variable costs are deducted. If it's too low, it won't be enough to cover fixed expenses and your drawings from the business.

6. Overheads are too high.

Every business should do a thorough review of its overheads each year.

7. Sales levels are too low.

If sales levels don't support cash demands on the business, then sadly, the business is not currently viable.

If you need help streamlining your processes and increasing your cashflow, we can help you identify the best areas to

focus on during a Cashflow & Profit Improvement Meeting.

“If I had to run a company on three measures, those measures would be customer satisfaction, employee satisfaction, and cashflow.” – Jack Welch

Should I focus on profits or cashflow?



Turning a profit is at the heart of running any successful company. But should profits be the only financial focus if you're looking to create a stable, long-term business?

Cashflow is the beating heart of your business. Without an even and predictable flow of cash into the company, you can't cover your overheads, you can't pay your employees and you can't run your day-to-day operations – let alone think about expanding and growing the business.

So, what's needed is a healthy cashflow position AND a good focus on driving profits.

Keeping on top of the financial management of your business can be hard work, especially if you're new to accounting and the technical terms that are used to talk about money.

But if you're going to be in control of your financial destiny, it's important to get your head around the important

process of cashflow management. This is especially true in the current business landscape, where sales revenue may be less buoyant, cash can be tight and the market is going through a challenging time.

Let's look at some of the key things to understand about your finances:

- **Profit is a by-product of a successful business** – as the owner, you want to make profits, but profitability isn't the only goal. A business can easily be profitable, but also be highly unstable in the longer term. What you want is stability and consistent revenues.
- **Cashflow is the blood that keeps your business alive** – good revenues (income) serve to bring cash into the business. Without cash to cover your operating expenses, you have no means to keep the lights on in the business. So cash really is king!
- **Know your cost base and overheads** – the flipside of your cashflow position is your costs. In an ideal world, you want more cash inflows than cash outflows, so it's important to know your expenses and costs and to manage them carefully.
- **Be proactive about spend management and easing expenditure** – if you can take action that reduces your spending, that is hugely positive for your cashflow position. Choose cheaper suppliers, negotiate better deals and bring that cost base down.
- **Drive more revenue, through increased sales and marketing activity** – if you can increase your revenues, you also boost your cashflow. So it's important to be proactive about running targeted sales and marketing campaigns to increase your sales.
- **Keep the cash flowing and the profits take care of themselves** – if you achieve the ideal cashflow position, the company sits on solid financial foundations, the cash is there for investment and the business can grow.

It's that simple.

Talk to us about improving your cashflow management

Whether you're new to running a business, or a seasoned owner who needs some financial support, we can give you the cashflow advice you need.

We'll review your finances, delve down into your cashflow and will come up with key ways for you to increase your cash income and reduce your cash expenses. It only takes a few small changes to achieve a far better cashflow position for your business – helping you maintain positive cashflow AND generate meaningful profits.

Get in touch to talk through your cashflow concerns.

Super Guarantee Rate Rises in July to 11%



In July 2023, the superannuation guarantee statutory rate will rise to 11%. Annually, the rate is increasing by 0.5% until July 2025 when it will reach the legislated 12%.

Prepare Now for the July Rate Rise

- Review your current superannuation costs for all employees, both hourly and salaried.
- Review any salary packaging arrangements. Is the agreement inclusive of superannuation or is super paid on top of the agreed salary?
- For salary packages inclusive of super, you will need to check the contract's wording to make sure you apply the changes correctly. This change may also impact annualised salary arrangements.
- Calculate your revised payroll costs from July, showing the current wages and superannuation expense compared to the new rate from July. Highlight the increased amount per month or quarter, so you know precisely what the impact will be.
- Discuss the super rate increase with your employees now. Let them know that there will be an increase of 0.5% each year from now until July 2025 when the statutory rate will reach 12% and remain there.
- Remember – short payment or late payment of super can incur hefty penalties – plan now for higher payroll expenses from July, so you don't get caught short.

If you'd like help reviewing payroll costs and employee agreements, talk to us now, and we'll make sure you have accurate reports to make planning for the rate rise easy.

Getting organised now means that you'll be well prepared for your business's increased costs when the first payment is due later this year.