Waterford accountants

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Are you running out of cash?

Managing cash flow is a problem faced by businesses of all sizes, particularly those on a strong growth path or with large value orders. June is the best time to take a breath, sit down and plot out your cash flow requirements for the new financial year. A little planning now could save you time and money.

The worst time to try and borrow cash is when you are desperate for it. Effectively, you have no negotiating power and are stuck in the position of having to complete make or break deals.

Let's look at an example of Craig and Karen who operate seven video stores. High turnover, high cash flow – they are always on the go and want to open another four stores in the coming year. They don't have to worry about debtors as it's a cash business and there is normally a constant flow. In fact Craig and Karen haven't worried too much about their management accounts. The bank account has always been fairly healthy and they have been able to earn a really good living. They draw a regular salary and top up their income each month by agreement. The last three shops all opened in the last four months and this has increased turnover substantially. The cash flow from the existing shops has funded the set up of the new shops. The growth has chewed up a lot of cash but they still seem to be managing.

Because of all of the business activity and new store openings they have got a bit behind on their accounts. In fact they are behind in lodging their last two Business Activity Statements but they are determined to catch up and set aside a couple of days to get everything up to date. When they do they are amazed to see how much they owe the ATO. What's more they don't have that much money in the bank. At first they think something must be wrong so they call in their accountants. There are a couple of mistakes in the calculations but their original estimate is fairly close. The increased activity coming out of the new stores has meant they have collected a lot of extra GST and this has all gone into the funding of the new stores. All of a sudden they have a big hole in the cash position.

Craig and Karen have got themselves caught by growing quickly and not managing their cash position closely enough. Their primary indicator has been their bank balance and the increase in business has made things look a lot better than reality in the short term. The lack of a good cash flow management and budgeting system and relying in this case on an unreliable indicator has got them into a lot of trouble.

The only solution here is to find out where things are really up to and then see if the business can be put back on track in a reasonable time frame. Craig and Karen may need to look at some additional funding. This could include specific funding to cover the fitout of the new stores that were paid for out of working capital. They may also need to have a talk to the ATO and work out a payment program to bring things up to date. This is something they need to review with their adviser. Most of all they need to get a strong accounting system in place and a good management information system. If they don't their empire will quickly be at risk.

The do's and don'ts of cash flow management

Do:

- Have sufficient capital in place to start your business and manage its growth
- Keep track of where you are up to on a weekly basis
- Control your debtors and stock. They're good to have but they need to keep turning over into cash
- Keep up to date cash flow budgets and management information systems
- Match your borrowings to the asset life they are funding – long term assets need long term borrowings
- Always allow for your tax debts. Under the GST business tends to collect a lot more tax than it previously used to
- Look at your funding options. There may be more ways to manage your position than you think

Don't:

- Take your eye off your cash flow. It wont manage itself
- Don't simply rely on your bank balance to know where you are up to
- Risk credit on bad credit risks. Have limits and controls in place
- Get caught over trading. You can only afford to grow to the extent that you can finance
- Pay for today's expenses with tomorrow's sales. You need adequate capital

Quote of the month

Effective leadership is putting first things first. Effective management is discipline, carrying it out.

Stephen Covey

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Completing your cash flow plan

The key to cash flow planning is to:

- Identify where the money comes from in your business; and
- When you can expect it to arrive.

Once you have done this write down all of the months of the year and start to plot out how much money will arrive in each month and where it will come from. To do this you need to:

1. Identify any money you are planning to invest in your business over the coming year
2. Know if you are planning to borrow any money
3. Estimate your sales for the coming year
4. Work out how long it will take for your customers to pay you
5. Identify any other money that is likely to come in to the business and when

The impact of time
A lot of people get profit and cash flow confused. And that's why you may have asked your accountant or yourself that question, "If I'm making all this profit where is it?"

One part of the answer is the timing impact that occurs in most businesses between when the profits are made and when the cash is required to meet day-to-day operating.

Let's have a quick look at some of the areas of your business where there are timing impacts:

1. You decide to supply some of your customers on credit and so you open a number of credit accounts. The sales you make this month are not paid for until the end of the following month. Immediately, you have created a 30-60 day timing difference between your sales (creating the profit) and the receipt of the payment (your cash flow).

2. Your sales have some seasonal fluctuations such as Christmas time. In order to have your stock on the shelves when you need it you need to purchase it two months before the start of the sale period. Your suppliers give you 30 day credit terms. Even allowing for this, you probably have your money tied up in the stock about 45 days after you have paid your suppliers. And if for any reason you don't sell all of the purchased stock then you will be funding it for a longer time period.

3. Your rent on your premises is paid monthly and in advance. So even before you have made any sales and earned any profit you need to outlay some of your monthly operating costs.

By understanding that the timing of your cash flow could be quite different to your business trading you will recognise the need to plan for the movements in your cash flow.

For assistance with your planning for the new financial year, contact us today.

When your marketing becomes junk!

Direct mail is a common marketing technique for many businesses. But there is a fine line between effective marketing and damaging your profit potential with poor targeting. Let's face it, being targeted by a company that has no relevance to you or your lifestyle is just annoying and a waste of time and money for the company.

A survey by the Privacy Commissioner revealed that 45% of people surveyed felt "angry or annoyed" when they received unsolicited marketing from companies they had not dealt with before (only 9% said they enjoyed reading it and 17% said it didn't bother them).

Under the Privacy Act, if someone asks you to stop sending them mail you need to remove them from your active database. It's important to note that your marketing material needs to provide details of how someone can stop being contacted by your company. Poor marketing and targeting can increase the number of people asking to be removed from your database.

Another common marketing technique is letterbox drops. It's estimated that Australian letterboxes were filled with 8.2 billion pieces of junk mail last year. While the no junk mail sign on letterboxes reduces some of the volume, currently compliance is self regulated under the Distribution Standards Board (although environment protection authorities in each State are working to produce enforceable standards to reduce the volume of junk mail). However, you can guarantee that not only is the cost of your marketing wasted, you are potentially damaging your companies brand if you continue to deliver material to households with this sign.

So the question is, with 8.2 billion pieces of marketing and 45% of people resistant to receiving unsolicited marketing material, how do you ensure that your target market takes notice of what your company has to offer?

Chartered Accountants

COVER OF EXCELLENCE

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