Day One Advisory

TIPS FOR CASH FLOW MANAGEMENT

AUTHOR

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Welcome

Cash is the lifeblood of any business no matter the size. Without cash, you can't buy the stock you need, pay your employees, pay yourself or grow your business. Cashflow is often the biggest issue any business faces and businesses live or die based on their cashflow.

As a business owner, it's vital that you are in-tune with your business cashflow. You need to understand what's coming in, what's going out and how much is left. Without tracking your cashflow you're flying blind and making potentially consequential decisions without the right information.

Tracking or improving your cashflow needn't be a daunting task. We've pulled together out top tips to 1) track your cashflow and 2) make improvements.

Tracking your cashflow

Create a budget

Every business should have a budget. It's the financial map for your business and helps you understand where you're heading. A budget sets a target based on where you want the business to be in the next 1, 5 and 10 years time.

For a budget to be an effective tool to manage cashflow it needs to include your income and expenses as well as any capital expenditure (asset purchases) and debt repayments. It's no good just tracking your income and expenses if $2k per month goes out to repay debts.

We generally suggest that a budget is prepared for the next year taking into account the broader plan for the business. Once you've created a budget, don't make changes to it.

Once you've got your budget in place, the next step is to run variance analysis on a monthly basis to see how the business is performing against the budget. You're budget is ultimately just a bunch of educated guesses so you're not going to hit it every month but by understanding your variances, you'll understand how your business is tracking and you can make adjustments to your cashflow accordingly.

92%

of Australian small businesses

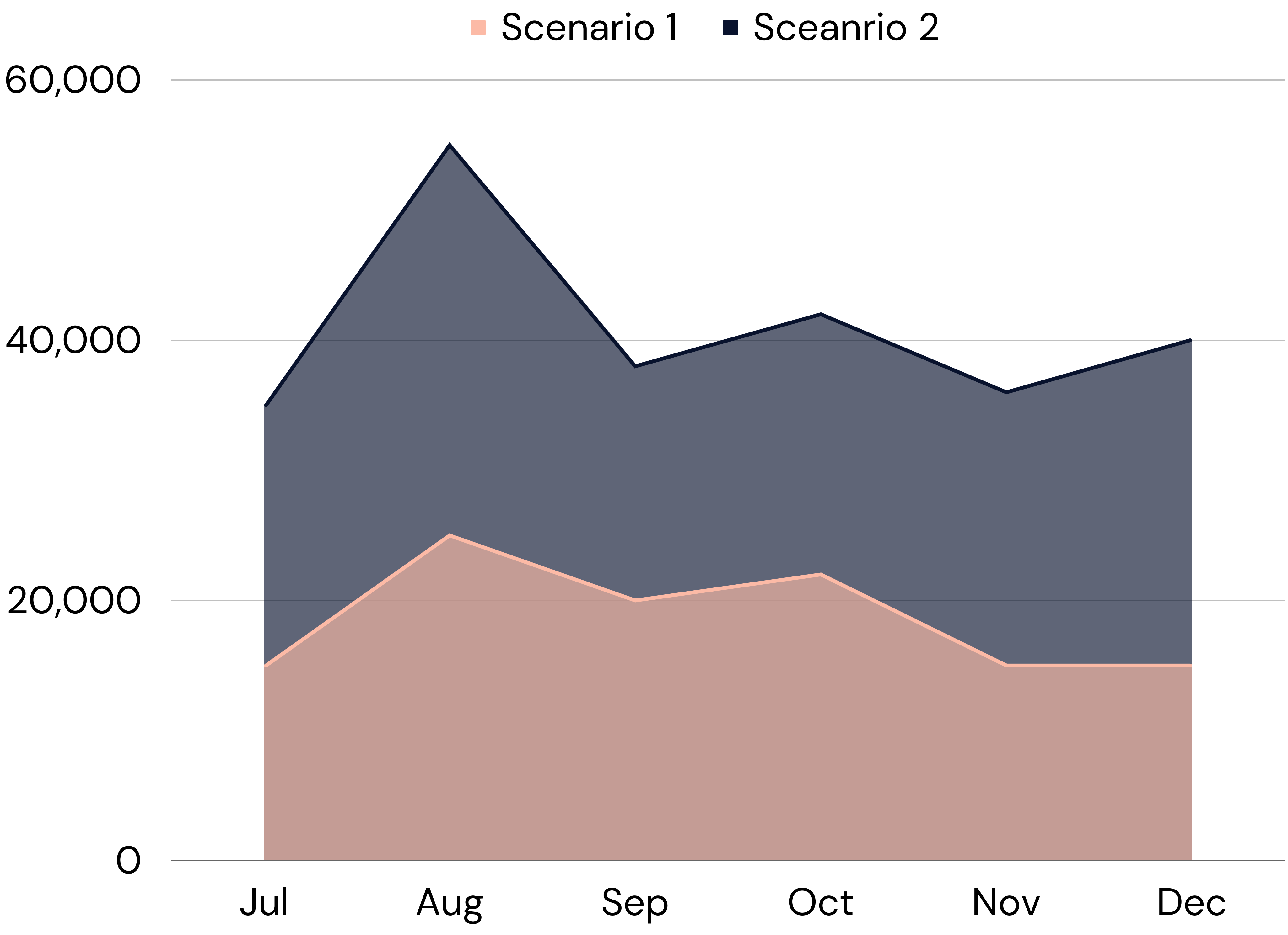
experience at least one month of negative cash flow per year

Use a cashflow forecasting tool

There are plenty of great apps out there that will allow you to easily forecast your cashflow. We're big fans of Floatapp for business owners.

This is pretty similar to a budget, however, where a budget is generally set once and then not changed a cashflow forecast should be updated regularly. It's difficult to forecast cashflow accurately so we generally advise clients to focus on a rolling 3-month basis.

Similar to your budget it's vital that you understand variances between the forecast and the actual numbers. This will help you become more accurate with your forecasting and ensures you're in control of your cashflow.



Management reporting

Management reports are a collection of reports that are relevant to your business. You should prepare these reports on a monthly or quarterly basis and review them in detail with your cashflow forecast and budget.

Management reports generally include the profit and loss statement, balance sheet, cashflow statement and other reports relevant to your business. For example, a service based business would also want to report on outstanding debtors and how long it's taking to get paid whereas a product based business should be reporting on inventory levels and sales volumes.

Keep great records

Budgeting, cashflow forecasting and management reporting require exceptional records. You can't make informed decisions without accurate data.

Make sure your bookkeeping process is on point and your systems are capturing the data you need. If you're not already using accounting software, you should set-up Xero.

Get some external help

If numbers aren't your favourite then consider getting some outside help to prepare and interpret the reports. Outside advice is also great for keeping you accountable and helping you make decisions in your business. After all, being a business owner can be pretty lonely and it's tiring making all the decisions yourself.

Tips to improve cashflow

"Setting a budget and reporting on your cashflow is one thing. Having tools and strategies to improve cashflow is another."

Increase revenue

I can sense a collective eye rolling from business owners reading that headline. I understand because I don't know a single business owner that isn't already trying their best to increase revenue. But stick with me on this.

We often come across business owners undercharging their services to get the gig. While that is a viable strategy to bring in new work, you need to ensure you're correctly valuing the work that you're doing and pricing to match the market. So a potentially easy way to improve cashflow is to increase your prices to match the value you're providing.

Case study

Overview

We're working with a local video production company who hadn't changed their pricing since starting the business.

Challenge

They are now working with much bigger clients and have more expensive equipment, additional staff and ultimately an excellent product. The owners of the business were working 50+ hours but it wasn't reflected in the revenue.

Solution

After some research, we convinced them to increase prices which included nearly doubling pricing on one particular service.

Result

Since increasing the pricing they haven't lost a job and are now getting paid at least 50% more for the same amount of work. Overnight their revenue and cashflow improved dramatically without putting in any extra work or incurring additional costs.

> Working with Matt and the team at Day One Advisory has given us the confidence to take our business to the next level and achieve fantastic results. In particular, Matt helped uncover aspects of our business where we were providing our clients with tremendous value but were undercharging for our services, so we were often overly busy but not bringing in the income we desired. His insights really opened our eyes and shifted our mindset in how we approached our pricing model. We have since increased our prices, even doubling the rates on a particular service, and are finding we have just as many customers but with a significantly better profit margin! Being paid more appropriately without having to increase our workload has taken a lot of stress off our shoulders and helped us find joy again in building our own business.

Get paid faster

There is nothing worse than doing $20k worth of work only to see the invoice sit there unpaid in debtors. Debtor days is the number of days it takes you to get paid from the date of the invoice. To improve cashflow it's important to keep that number as low as possible so you get cash in the door faster.
Here are a few tips to get paid faster:

Automatic invoice reminders

Most online accounting software allows you to automatically remind customers when their invoices are late. Consider implementing reminders once the invoice is 2, 7 and 14 days late if not more often. Sometimes a customer has simply forgotten to make payment so auto reminders will get the cash to you faster.

Shorten your terms

Rather than offering terms of 14 or 30 days, only offer terms of 7 days on invoices. After all, you've done the work they've engaged you for so why offer them credit.

Collect deposits

Taking a deposit upfront will help you cover your costs while you complete the work. It's also a good way to weed out those customers that could be bad payers.

Progress invoice

If you're offering a service that is delivered over several weeks or months, don't wait until the end to invoice. Agree progress periods upfront and invoice regularly.

Communicate pricing clearly

Nobody likes getting a bill they weren't expecting. It's vital that you clearly and consistently communicate your pricing including any changes. This will avoid any conflict once you've issued your invoice.

Offer convenient payment options

Integrating Stripe or Paypal into your invoices means customers can pay with a few clicks. By having a pay now button on the email or invoice your customers are more likely to pay it when they first see the email. You can also pass on the fees to your customers so you're not taking a haircut if they choose to pay by credit card.

Reduce costs

I don't know about you, but we pay a small fortune in subscription fees in our business. It seems that every time you want to do something new you end up adding a new subscription and the cost can add up. Regularly reviewing your systems and processes can help you trim the excess fat and reduce your costs.

Reducing unnecessary costs is an easy way to improve cashflow. Be ruthless when completing this process, after all, it's your hard-earned money, any extra you spend takes it out of your pocket.

Buy stock intelligently

Buying too much stock results in cash being tied up unnecessarily whereas buying too little stock could mean you're missing out on sales.

Implementing robust inventory management software (think Dear Inventory, Unleashed, Cin7) will give you the data to accurately forecast stock and buy at appropriate levels. This will stop you missing out on sales and ensure you don't have more cash tied up in stock than you need to.

Keep business & personal finances separate

In order to manage your cashflow in the most effective way, you should ensure your business and personal finances are kept completely separate. Paying for personal expenses from your business account is a dangerous habit to get into. It's easy to keep spending as the business grows resulting in any free cash in the business being spent.

A better practice is to keep all personal expenses in your personal bank accounts and pay yourself a wage or regular distribution from the business. If the business makes a profit you can draw that out but at least you're doing it in a controlled and informed way.

Live within your means

Following on from the comments above about keeping business and personal finances separate, it's also important to live within your means. What we mean by that is don't spend more than you can afford. If you're making $100k per year, it's important that you don't live like you're making $1m because you'll quickly run out for cash and put stress on your finances and the business.

In addition to business budgeting, we also encourage clients to undertake personal budgeting so they know what they need to live on and they can manage their spending.

Build a cash reserve

Having a cash reserve in the business means that you can manage the ups and downs without needing debt. Let's say you take on a large contract but the customer takes their sweet time to pay your invoice. In the meantime, you've still had to incur costs or pay suppliers and employees. Without having a cash buffer these costs are likely to be paid on a credit card or overdraft on which you'll have to pay interest. Or even worse, you might not be able to pay suppliers and employees which could be damaging to the business. Having a cash buffer in this cash would allow you to ride out the lows without incurring additional costs or hurting your reputation.

Plan for tax, BAS & super payments

Income tax

You should be undertaking tax planning at least annually so you can implement strategies to minimise tax, estimate the liabilities and budget for the payment in advance of the due date. Put that cash aside in a separate account so it's ready to go when the payment due date comes around.

BAS – GST & PAYG

There are a few easy ways to manage these payments:

- Save a % of sales for GST. Once you've been in business for a while you'll be able to calculate what % of your sales gets paid to the ATO each month/quarter. Because you get a credit on some purchases it won't be 10% but will be somewhere between 0%-10%. Putting that % of your sales aside will help you save for the dreaded GST bill each time it comes around.

- Set aside PAYG every pay period. Every time you post a pay run you'll know the amount of PAYG that is payable to the ATO. Setting this amount aside every pay period will mean you have the cash available to pay the ATO when your BAS is lodged.

- Track your GST and PAYG accounts. Xero allows you to add those accounts to a watchlist on your dashboard. It's not a perfect system due to timing differences but by having the balance of those accounts set aside you'll be in good position to pay the BAS when it's due.

Super

Super must be paid within 28 days following the end of the quarter for it to be tax deductible. The first thing to do is to make sure it's paid by the due date. The consequence is that you'll miss out on a tax deduction (effectively costing you an extra ~30%) and will have to pay some fees/penalties.

If you're struggling to pay your super quarterly, here are a couple of options:

·Pay super more frequently. I personally find it a lot easier to just pay the super when I process the pay run. Using Xero's auto super function it's only a couple of clicks and the super is paid.

Set aside the super. When you're running the pay run each period you'll know the amount of super payable. Set this aside and it will be saved ready for the quarterly payment.

Thank you

Getting control of your cashflow should be a priority for any business. We hope that this book has given you some practical tips on how to measure and manage cashflow in your business.

If you need any assistance or just want a second opinion, reach out to the team at Day One Advisory- we are here to help!

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