

POSITIVE Cash Flow

By Carl Bates, Sirdar Group

Cash Flow Can Never Be A Problem In Business...EVER!

Small businesses are paramount to the Australian and New Zealand economy, it is the fundamental essence of the "Australian and New Zealand Dream" to start and build a successful business. However the main problem many business owners face is cash flow.

So, when you think about cash flow, do you think about sales volumes or the time it takes for sales to turn into cash in the bank? Do you value the amount of your inventory or consider the amount of time inventory sits on your shelf? Do you think about your taxation liability, or opportunities to use the cash flow between now and when the tax is due? These are all, understandably, concerns and points of interest for any business owner. But are we all looking at cash flow far too literally?

Firstly, remember cash flow is never a problem; it is only ever a measure. Indeed

Your Cash Flow Is A Reflection Of Every Business Decision You Make And It Is Important To Understand Why.

If you like, cash flow is the result; not the problem itself.

It's important to clearly understand this concept because it's much easier to identify actual problems and issues in the business when you acknowledge this point. Issues such as overspending, not selling enough or not creating the right attraction with your marketing.

They say "Cash is King!" Well, I subscribe to a slightly different version of that saying:

"Revenue is vanity, margin is sanity and cash is king."

It reflects the fact that we can have a great revenue stream, be making reasonable margins, but not translating this into cash in the bank. Ultimately, if we are not getting cash into the bank account, we will not survive.

Cash in the bank is a fact, is undisputable and a necessity to the longevity of any company. However, revenue and margin are paper transactions until they actually convert into cash in our bank. Revenue and margin are easily eroded by:

- slow paying debtors
- customers returning products they have not yet paid for, or
- suppliers increasing prices, after we have already quoted a fixed price to our own customers.

TAKING ACTION NOW...

How could you reduce your terms of payment? For example, change your terms from 20th of the month or 30 days, to 7 days. Even better, require payment before delivery. You may be surprised how accommodating your clients will be (even if they do grumble a bit at the start). Even more surprising will be the positive impact in your business, and the slow payers will go away making business easier).

To understand this, ask yourself questions like; how much cash comes in each week to pay our regular bills? With a new client, is the initial month cash flow positive or negative for us? How often do we chase up our debtors?

Answering these questions will start to provide you with a good understanding of the operating cash flow in your business and what is affecting it.

Secondly, Know What Investment Your Business Requires In Order For It To Grow. Every business requires some level of financial resource from the owner/s in order to enable it to grow to the next level. To grow your business, what are you going to need to invest cash into? It may be equipment, marketing, R&D, locations, etc.

Without planning, these necessary "investments" come as a big surprise with planning, you ensure you have an ability to provide the resources to grow your business.

Lastly, What Working Capital Does Your Business Require To Operate?

Working capital is the cash a business requires to enable it to operate effectively.

It is about the difference between when a sale is made (i.e. product or service provided) and when the cash is received; between when a purchase is made from a supplier and they are paid; and how much cash is used in having inventory in warehouses, in transit or in work-in-progress.

By not understanding our specific working capital requirements, we deprive our business of the cash flow it requires to be as effective as it can be.

Think about ways to decrease your working capital requirements thus improving your cash flow. How much cash is tied up in inventory not selling or debtors not collected fast enough? Could you arrange more favourable terms with suppliers so cash stays in your account longer?

Our business is not defined by what our cash flow is today, but rather what we are able to do to change our cash flow for tomorrow. Robert H Schuller says:

"Our greatest lack is not money for any undertaking, but rather ideas. If the ideas are good, cash will somehow flow to where it is needed."



CARL BATES

A leader in the growth and development of small and medium enterprises throughout Australia and New Zealand.

He is the founder and Group Chairman of Sirdar Group (www.sirdargroup.com) a company that works with businesses to grow their profit line and grow their value. Sirdar has had exceptional growth indeed its Group revenue has grown from \$1,312,000 at 30 June 2007 to more than \$10,700,000 at 31 July 2008 (that's just 13 months!).

Carl is a management strategist and governance specialist, with a holistic approach to business. He has a distinctive ability to challenge and support passionate business mountaineers.

Carl takes pride in challenging them to see new potential in their own dreams and provides the insight required to enable them to reach the summit of their vision. Previously Carl has been the Acting Chief Executive of Quality Health New Zealand, General Manager of a 270-bed accommodation complex, a director of the New Zealand's largest multi-stadia complex and the Universal College of Learning (UCOL). He is a Chartered Accountant, a member of the Institute of Directors and has a particular interest in sustainability.

Sirdar is the name given to the lead Sherpa on a mountain expedition. The Sirdar chooses the right team, decides on the route and knows when to go for the summit. Through determining an effective strategy and establishing appropriate governance Sirdar takes businesses on an astute business expedition so you can climb to new heights!

If you are interested in exploring how the Sirdar team can support your enterprise growth, contact Carl via carlbates@sirdargroup.com or +64 21 522 837.

SPECIAL OFFER

If you would like a complimentary recording of a recent teleconference conducted by Carl: **"Cash flow can never be a problem in any business...EVER"**, email rozannebrown@sirdargroup.com requesting your name be placed on our events notification database.