

Illawarra Small Business Assistance

HELPFUL HINT – KEEPING THE CASH FLOWING

Timing, Timing, Timing

Good cash flow management is all about managing the time gap – the difference between when money comes IN and when it has to go OUT. The better you are at closing the gap the less likely you are to experience cash flow problems.

Contingency Arrangements

It's vitally important to have some contingency arrangements in place to cover the unexpected. Ideally, this is where retained earnings comes into play or in a fledgling business it might include an overdraft arrangement with your bank or you may need to factor your debtors if the circumstances require it.

Don't Mistake profit with Cash Flow. What's the difference?

Profit is what you make from sales after all expenses have been paid, whereas cash flow is the money that funds the running and growth of the business.

Don't get fooled into reducing prices thinking that any sale is a good sale. Unless there are special circumstances you need to price your products or services at levels that will ensure reasonable profits. Pricing slow moving or dead stock is a different matter.

Collect Debtors Faster

Look at ways of improving the terms of account on all but your best customers – reduce from 30 days to 21 days or even 14 days and seek up-front deposits where possible.

Inventory Reduction Methods

Replace stock that has not sold and replace it with faster moving lines.

Improve layouts and signage within the store to maximize sales

Introduce interest only and special lay-buy facilities

Implement JIT strategies and make appropriate arrangements with suppliers

Increase Prices

Investigate the floor stock and determine those items which have little or no competition and increase the prices on these.

Calculate your Stock Turns (Cost of Goods Sold divided by average inventory)

Stock turnover is an indication of your stock management efficiency, measuring the relationship of stock to sales, with the rationale that the lower the workable stock level to support a set volume of sales then the greater the efficiency of stock management. You should strive to minimize the length of time stock is held prior to sale and aim for the highest practicable number of inventory turnovers possible.

Creditors Payment Cycle

Make arrangements with the suppliers that you enjoy strong relationships with to give you some extra leeway with the payment cycle. Make sure your return-to-supplier policy is well documented and favorable and negotiate beneficial product linked advertising and promotion.

Calculate Marketing as a percentage of sales

Set yourself a marketing budget based on a percentage of sales so that you don't overspend or lose traction. Make sure your marketing outlays are not burning cash but are working efficiently to generate well targeted sales.

Calculate Wages as a percentage of Sales

Wages should include all the add-on costs such as superannuation, training, commissions, payroll tax, and workers compensation

Calculate Rent as a percentage of Total Revenue

It is important to regularly review your location strategy. Although the preferred aim for retailers is to focus on location rather than to pursue lower rents, it can often be strategically wise to seek cheaper rent if it is unlikely to hurt the overall business.

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