Cash Flow Playbook

Discover how to get Cash Flow front and centre in your business

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If your revenue figures are increasing month after month, it must be safe for you to assume that business is going rather well, right? Well, yes and no.

SME Owners and Managers
Discover

Read this guide to discover:

- What is cash flow?
- Forecasting is your new non-negotiable monthly task
- How To Create Your Cash Flow Forecast
- What is your cash flow forecast telling you?
- Get paid faster to improve your cash flow
- Cash flow matters to every employee

What is Cash Flow?

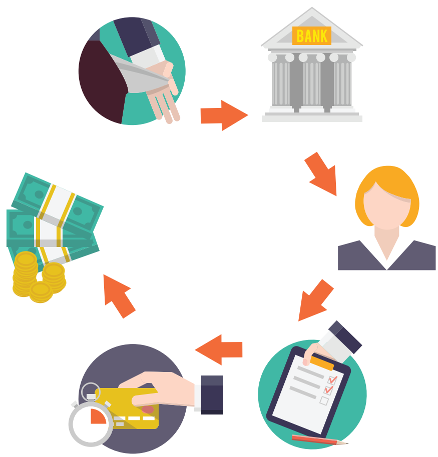
An accountant's definition:
A revenue or expense stream that changes a cash account over a given period. Cash inflows usually arise from one of three activities - financing, operations or investing - although this also occurs as a result of donations or gifts in the case of personal finance. Cash outflows result from expenses or investments.

> **"Great businesses can fail because of cash flow blunders."**

The amount of revenue your business turns over in a month is obviously a significant contributor to your overall business performance and profitability. BUT, the amount of revenue your business generates is only one indicator of the financial position of your business. The hard truth is great businesses can fail because of cash flow blunders – regardless of how much revenue is coming in the door.

Our top tips to avoid cash flow blunders are:

- ✓ Understanding cash flow
- ✓ Forecasting cash flow
- ✓ Being firm on late payers



Cash – your competitive advantage and growth strategy

Your competitive advantage lies in the cash that your business has in the bank – and to get cash in the bank, you need cold hard cash to flow into your business every day that you operate. Without cash, you could end up in the stressful and expensive position of needing to rely on expensive credit to get by while you're waiting to be paid by your customers.

How would your business cope?

How would your business cope if you were to receive all of your revenue on the last day of the month? How would you pay your staff (and all the other expenses that pop up) every day of the month before you got paid? This is where the importance of cash flow – and why you need to care about it – becomes clear.

"As long as your business has cash in the bank, you have ammunition to outplay and outlast your competition."

Control your own destiny

These days it is much harder and more expensive for businesses to obtain credit. This can significantly slow the growth of any SME. The most successful small businesses are controlling their own destiny and keeping cash reserves to use instead of expensive Bank credit.

Forecasting is your new non-negotiable monthly task

A Cash is the fuel that drives all of the day-to-day operations in your business.

If your business doesn't have cash in the bank, you can't hire the best staff and you can't pay your operating expenses – and if you can't pay your operating expenses, you won't be in business for long.

You need to remain focused on cash flow so that your business can continue to trade, thrive and grow. One of the best ways to keep cash flow at the top of your business priorities is to conduct regular cash flow forecasts.

The purpose of a cash flow forecast is to predict how much cash will flow in and out of your business during the coming month.

Ultimately, your cash flow forecast should give you an indication of how much cash will be available for regular operating expenses (such as staffing overheads), investments (such as new software) and special projects (such as marketing campaigns) in the coming month.

Your Cash Flow Forecast

Your cash flow forecast can present a valuable secret weapon to you and your business – insight.

Over time, it can reveal key business indicators such as sales peaks and troughs, seasonality of trade, the profitability of your different products and services and even the profitability of certain customers over others. These insights can help you to sharpen your business strategy and make sound business decisions so that you can outplay and outlast your competitors.

"If Lehman brothers had made sound business decisions based on accurate cash flow forecasts, they may never have irresponsibly borrowed and leveraged their way to bankruptcy."

How to create your Cash Flow Forecast

Now that you're all up to speed on the importance of cash flow forecasting, it's time to create your first cash flow forecast for your business. Follow our experts' very simple forecasting process to get you started:

01

Check your bank balance and note this figure down as the starting point for your cash flow forecast.
Eg. $100,000 Cash at Bank

02

Add the total of your cash inflow to your bank balance from step one.

Your cash inflow is the total of all of the cash that will be coming into your business during the coming month – this includes cash from sales, investments, interest, inbound commissions and so on. When you're working out your cash inflow, the detrimental effect that late customer payments and long customer payment terms have on your cash flow become painfully obvious, as sales made this month may not hit your account for some time.
Eg. $100,000 Cash at Bank
+ $150,000 Inflow

03

Deduct the total of your cash outflow from the sum of steps one and two.

Your cash outflow is the total of all the cash that will be leaving your business in the way of regular operating expenses (such as staffing overheads), investments (such as new software) and special projects (such as marketing campaigns) in the coming month. Be sure to include any quarterly tax payments in this figure, as these are frequently forgotten during the forecasting process.
Eg. $100,000 Cash at Bank
+ $150,000 Inflow
- $190,000 Outflow

04

The resulting figure from steps one, two and three is your net cash flow.

Ideally, this will be a positive figure – which means your business has made a profit to invest or save for a rainy day
Eg. $100,000 Cash at Bank
+ $150,000 Inflow
- $190,000 Outflow

= $60,000 Net Cash Flow

What is your Cash Flow Forecast telling you?

If your payment terms leave you footing the bill for materials while you're waiting for your customer to pay you, you are exposing your business to significant cash flow risk. If the cash from each sale doesn't arrive in your business account quickly, you will need to dip into your cash reserves to be able to fulfil the customer's order.

If this is happening in your business, your long payment terms are likely to be stifling your cash flow and could be holding your business back from achieving its fullest potential. Think about all the things you could achieve in your business if you were to adjust your customer payment terms so that you never have to dip into your cash reserves to continue operating.

Improve your Cash Flow

One failsafe strategy to improve your cash position – without increasing your prices – is to get paid by your customers faster. By increasing the speed of your inbound cash flow (i.e. asking your customers to pay you faster), you can increase the amount of cash you have available at any time – and use this cash to gain an edge over your competitors.
Get started by:

- Get paid faster and on time
- Or split larger amounts into smaller, regular payments
- Move customers onto auto-scheduled payments

"If Australian Business's average some 53 days to settle accounts and state this as being one of the primary roadblocks to business success."

Department of Innovation, Industry, Science and Research, 2012

Cash Flow matters to every employee

For even the most experienced workers, finding secure employment is becoming increasingly competitive. Accordingly, your staff have a vested interest in the financial health of the business that keeps them in steady employment. This is why cash flow should be a priority for every employee in your business.

How to get Cash Flow onto everyone's radar?

Try implementing some of our experts' top tips to getting cash flow onto everyone's radar in your business:

- **Encourage your staff to read up on cash flow management. You could try making cash flow management a recognised professional development item.**

- **Ask your finance manager to share monthly cash flow reports with senior staff, explain how the numbers in those reports affect the business and encourage discussion amongst the group. Over time, these cash flow meetings will up-skill your senior staff and improve cash flow management across your business.**

- **Add cash flow forecasting to your monthly deliverables for senior staff.**

Improve your Cash Flow Forecast

Operating in a credit-crunching post-GFC business environment definitely has its challenges for small business owners. Customers are increasingly searching for the lowest-cost option and banks aren't as ready to lend cash to help you get through seasonal downtimes or fund your next growth initiative.

- Control when you get paid (don't wait to get paid)
- Break large payments into smaller, more manageable amounts
- Automate your incoming payments

Talk to one of our Cash Flow Experts

The key to success lies with improving the way you do business to achieve internal efficiencies, reduce your operating costs, increase your positive cash flow and ultimately increase your profits.

Improve your cash flow forecast today.

Click here to schedule a call with an Ezidebit Cash Flow expert.

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