

WE ASKED FOUR OF OUR EXPERTS...

WHAT'S YOUR BEST ADVICE TO SME OWNERS ON SURVIVING IN A TIGHT CREDIT MARKET?

“SUCCESS IS ONLY ACHIEVED WHEN THE MONEY IS IN THE BANK”

—Mary Henderson

MATTHEW NOLAN, MANAGING DIRECTOR, PROVIDENT CASHFLOW

With additional working capital harder to secure, it's crucial to get every dollar in your business working harder. Use these tips to squeeze the most cash out of your business cash flow:

Take Credit: Be sure to take full advantage of creditor payment terms and remember to regularly negotiate extensions to these terms whenever possible. Also insist on paying money electronically, as this means you'll be able to leave payments to the last possible day and you'll also have a record that confirms payment has been made.

Get paid: Be sure to invoice your customers promptly and with a fully detailed invoice, which is followed up regularly to ensure payments are received on time.

Prioritise: Keep an up-to-date cash flow that includes pending payments and expected sources of income. By listing and then scheduling payments and receipt of income, it will identify cashflow requirements and help ensure there are available funds

to meet commitments. It will also help prioritise payments so that the most important ones are paid first, as well as preventing spontaneous spending on the non-essential items when payments are received.

Call: If things are looking particularly grim and payments need to be stretched beyond the due date, minimise the risk of an unpaid creditor cutting off supply by pro-actively contacting them. Through letting suppliers know that you haven't forgotten about paying, they'll be more inclined to believe the commitment will be honoured and encouraged to provide you with a little extra time.



MARY HENDERSON, CEO, GEEK IT GROUP

I am a great believer that success should not be measured by how busy you are and the amount of new business coming through the door. Success is only achieved when the money is in the bank. When the economy is slowing and access to money is tight, it's vital to put in place effective cash flow management practices to ensure a clear understanding of the money coming in and going out.

Firstly, I cannot stress enough the importance of effectively managing your cash flow with regular report updates, such as aged debtors and cash flow reports and budget comparisons. These aren't difficult to produce and show what monies are owed, who are the better paying customers and how much cash you have on hand. Ultimately, they enable you to assess your business' performance, plan for growth and immediately address problems.

I'm also a great believer in negotiating flat fees for external consultants such as accountants so I know up front what my costs will be and won't be stung by over-and-above hourly fees. For example, legal fees often exceed original estimates, so I always ask for a lump sum cost up front and factor that into my budget.

Finally, resist spending on unnecessary gadgets. Instead, invest in your people and technologies so you can deliver high quality work for customers, which at the end of the day will help you to thrive and prosper in slower times.

Last issue we incorrectly reported that Mary was current, rather than former, Victorian president of AIMIA and board member of the AIIA.



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ADRIAN MCFEDRIES, MD, DC STRATEGY

Cash is king! It's an old adage but no more true than in times of tight credit markets. There are four key areas to focus on in a back to basics strategy for any SME: drives sales, improve or maintain gross margin, debtor management and increasing stock turn.

The reality for most SMEs is the existence of a fixed cost base that is difficult to remove or further minimise. Consequently, every effort needs to be made to focus on driving sales and in areas that stand the best chance of closing a sale. There is little value in deploying increased resources in opportunistic areas.



A discount is a lazy sale so ask yourself the increase in sales required for every 10 percent price discount. A price discount will create a smaller gross margin and, with the exception of a few industries, customers will still pay more for convenience or service even if the offering is commoditised.

Every business has a cash flow cycle from purchase to payment but a cash position can be significantly improved with much tighter debtor management. It only takes a small amount of time to make the calls – not letters!

For those businesses with stock there is nothing more dead in a business than slow stock turn. Many people conclude that if sales are increasing, stock turn must be improving, but this is only half the equation. A critical decision that every business has to make is how much stock to buy at the outset. Whatever your position, don't leave it until the last minute to identify sources of capital or working capital.

CARL WALSH, MD, GE MONEY AUSTRALIA AND NEW ZEALAND

One of the most important aspects of running a business is ensuring customers pay on time. In good times, it becomes too easy to overlook a late invoice, but having a robust accounts receivable policy can significantly impact on your cash flow. These basic steps could help:



- Develop a clear accounts payable policy and communicate it to staff and customers. So often businesses develop good policies but fail to implement them. Ensure your staff and customers are aware of your policy. Furthermore make sure it is enforced.
- Offer a discount for accounts that are paid in advance of the due date. Work with your accountant to calculate what you can offer those who pay early. Be careful though; it is a fine line between giving a discount and costing yourself money.
- Conduct reference checks on new accounts and customers. Get to know them before you offer them an account.
- Follow up overdue accounts promptly; customers will not call you! If an account is overdue, follow it up promptly and ensure a member of your staff is responsible the account. Clearly document your process for accounts that remain unpaid.
- Whilst the above points may seem basic they are often overlooked. Consistently implement these simple but effective ideas to help optimise your cash position considerably. **DB**

Disclaimer: The advice expressed within these pages should be taken as opinion only and you should instruct your own expert if you require advice specific to your business.