YOUR FREE GUIDE TO BECOMING A CASHFLOW GURU

This template can be used as a guide on how to measure where you currently stand with your cashflow and provides great insights and tips that can be used with your future finance goals.

SMART ADVANCE

AGENDA

What is Cashflow

A generic term that can be used differently depending on the context. It can refer to actual past flows or projected future flows. It can refer to the total of all flows involved or a subset of them, for example, net cashflow, operating cashflow, and free cashflow.

The total amount of money being transferred into and out of a business, especially as affecting liquidity.

The Cashflow Cycle

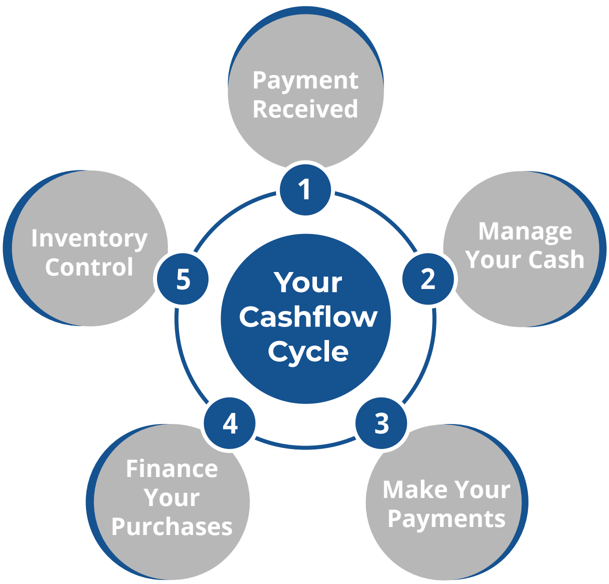
The cash conversion cycle is a cash flow calculation that attempts to measure the time it takes a company to convert it's investment in inventory and other resource input into cash.

Why is that important you?

A long cycle can indicate liquidity issues as well as excess inventory on hand. This can be an indicator of poor sales or even worse, products that nobody wants.

The formula to calculate the cash cycle of a business is:

CCC = Days inventory Outstanding + Days Sales Outstanding - Days Payable Outstanding



4 Ways to Shorten the Cashflow Cycle

1 **Ask your clients to pay you more quickly.**

If you give them thirty days to pay, make it fifteen. If you bill once a month, start billing twice a month. Simple idea but big results.

2 **Bill in Advance.**

This works particularly well if you are a service business. Bill your service fifteen or thirty days in advance.

3 **Deliver your product or service quicker.**

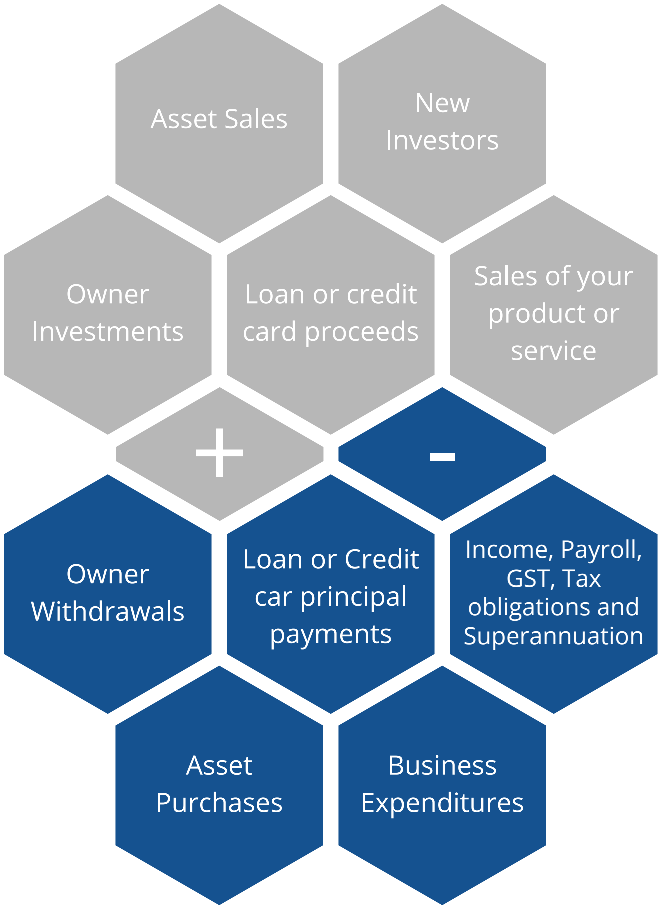
The faster you can turn around your product or service, the sooner you'll get paid and the less money you'll have tied up in "work in progress"

4 **Reducing billing errors.**

Take time on the front end to ensure that your billing is accurate so you do not waste time (and money) on the back end fixing it.

Cashflow Summary Factors

Cash is generated into a business through:

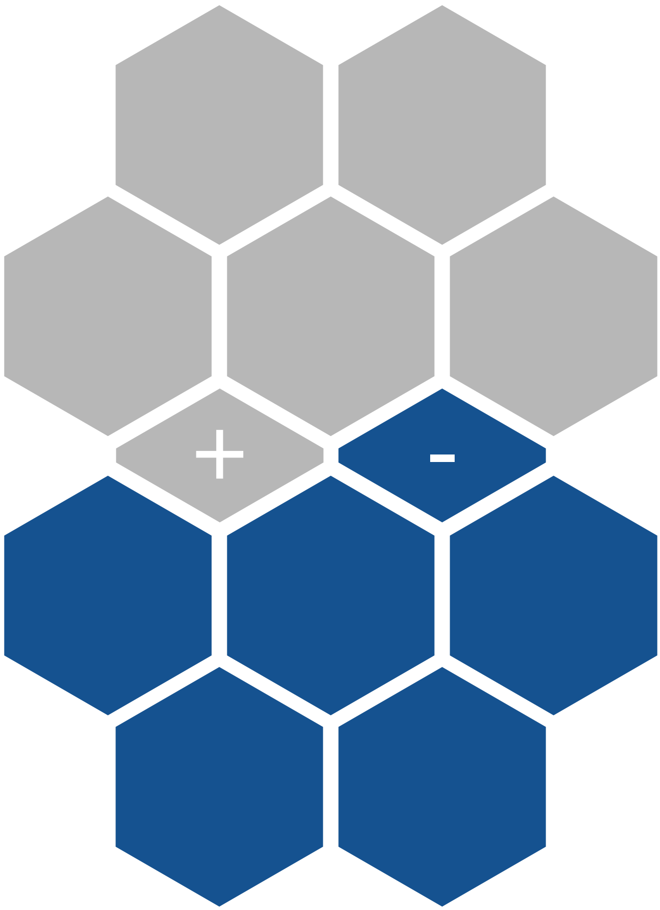


Cashflow out of a business through:

Your Cashflow Summary Factors

Use this template to list all of the funds coming in and going out of your business.

Cash is generated into a business through:



Cashflow out of a business through:

The Top 5 Most Common Cashflow Challenges

Growing a business is exciting, but growth and the cashflow it requires presents challenges to any business.

Typically these challenges arise when you have the following

1. High Fixed Overheads/ Expenses
2. Slow-Paying Debtors
3. Holding Excess/ Highly Specialised Inventory
4. Traditional Lending Challenges
5. Insufficient Gross Margins

Challenge 1

High Fixed Overheads/Expenses

Fixed Overheads are the costs of running a business that are there irrespective of whether you are successful of making a sale, producing a product or delivering a service.

Sometimes Overheads get out of hand relative to the revenue the business produces. High Overheads can impede your business's cash flow.

Solution

The solution to this problem is simple, but it is not easy. Audit your expenses and cut back where you can. Be careful not to cut too much, as that approach could also harm the company.

If you cannot cut back, consider cheaper options. Every business should audit expenses regularly to ensure that Fixed Overheads stay in line.

Challenge 2

Slow-Paying Debtors

Slow-paying Debtors are a common cause of cashflow problems. As a small business, you will be asked to offer 30-day to 60-day payment terms to debtors. However, small companies can't always afford to wait this long for payment.

Your buyers cannot always pay you immediately and eventually, slow payments create a financial problem that can seriously affect your business, especially if it's growing quickly.

Solution

There are two ways to solve this problem. One solution is to provide clients with an incentive to pay faster. Offering a say 2% discount in exchange for a payment in 10 days can motivate clients to pay quickly. However, this incentive needs to be negotiated directly with each client and bare in mind the effect it will have on your mark-up.

An alternative is to source external funding to finance slow paying Debtors. If you are successful, consider charging the debtors interest after a certain period at a higher rate than what you are paying to your bank.

Challenge 3

Holding Excess/Highly-Specialised Inventory

This problem can affect companies that manufacture goods or re-sellers that keep a warehouse stocked with products. If too much product is made or purchased, it ends up sitting on shelves and tying up cash.

Solution

Fine-tune your inventory so that you stock items for the shortest possible time before being sold or used in the manufacturing process.

The amount of product you keep in stock depends on your volume, sales forecasts, available cash, and supplier capabilities. Monitor inventory levels carefully, however, as having low product levels is a sure way to lose clients.

Challenge 4

Traditional Lending Challenges:

- Requires a deposit or your approval limit has been reached.
- You don’t have invoices or are not able to get debtors approved
- You don’t own property or don’t want to use family home as security
- Unable to get approval as your LVR (Loan to Value Ratio) Is too high
- Lack of security or you have reached your maximum overdraft limit.

Solution

The solution to speak to finance professional who understands your business and has your interests at heart. Smart@Vance does not require ANY security, such as a property, cars, invoices or debtors. We provide funds of up to $250,000 based on cashflows and business performance.

Challenge 5

Insufficient Gross Margins

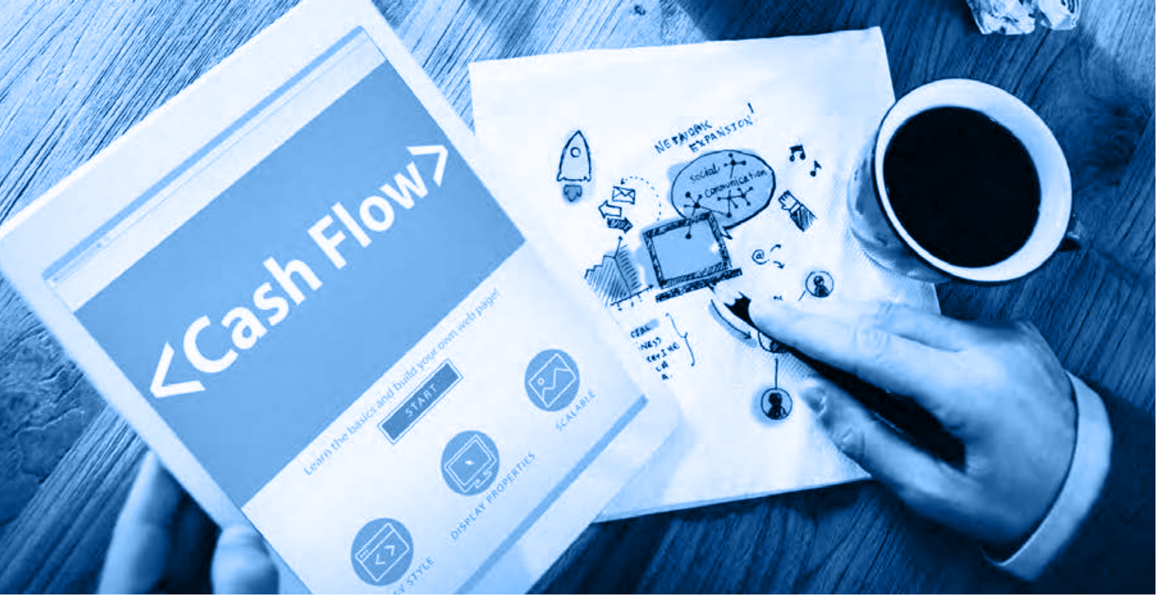
Small businesses sometimes sell their products and services for such low prices that they have low, or negative, gross margins.

This scenario often happens in highly competitive environments with constant pricing pressure. It usually affects small business owners who do not have a clear understanding of their costs.

Solution

To solve this problem, audit all your products and services to determine the all-inclusive cost of delivering your products and services. This step is difficult but necessary. Once you have determined the all-inclusive cost, do the following:

- If you can, raise the prices of products/services that have weak margins
- If you can't raise prices, consider dropping products/services that have weak margins
- Ensure that all proposals price your products according to their cost.



5 Tips to Maintaining a Positive Cashflow

1	Constantly monitor your cashflow through budgeting, reporting and forecasting cashflows
2	Regularly monitor the businesses financial performance with an eye on Financial Ratios
3	Know when to call for outside funding and select the most appropriate form of funding.
4	Monitor the interest you are paying on borrowings
5	Be wary of over-encumbering your business, it’s assets and avoid personal guarantee

Your Cashflow Priorities

If you are profitable, you must understand that there are 4 forces that demand priority satisfaction from your cash flow:

Taxes

You must either set aside money or pay chunks of taxes as you go to avoid the April surprise (or October surprise if you extend how long you stick your head in the sand)

Debt

Revolving Lines of Credit are 'crack cocaine' for entrepreneurs: get off the drug as soon as you can by arranging a short-term line of credit that your cash flow can accommodate

Core Capital

Retain after-tax profits until you reach your core capital target, which is generally defined as 2 months of operating costs in cash with nothing drawn on the line of credit and your anticipated taxes set aside

Distributions

Reap your reward and finally take after tax profits to diversify your wealth outside of the business

Retrieving Owed Funds

Invoicing early and chasing payment should help keep cashflow healthy but sometimes polite reminders aren't enough and the money you're owed isn't forthcoming.

Deciding if and when to take more serious action can be tough. The good news is that there is a range of options available, and taking your customer to court is a last resort.

Top 10 Techniques to Retrieve Owed Funds

Collection Tips

1. Make preparing your invoices one of your highest priorities
2. Hire an experienced accounts receivable manager, and have them form a favourable relationship with the person who makes
3. Provide customers with information about the payment processes available
4. At point of sale, identify how they will be paying – cash, Electronic Payments, direct into your business account
5. Provide your account details in writing
6. Include due dates on all invoices sent out. If you offer a discount, make sure it is clearly spelled out on the invoice
7. Use market credit data to qualify your clients payment record before entering into a relationship with them
8. Categorise slow payers and deal with them accordingly
9. Reduce the grace period for late payment, and increase the frequency of reminders to late payers
10. Make collection calls early in the week and be personable

Making Direct Contact with your Customer – Example 1

Guide to Follow Up an Overdue Invoice via a Phone Call.

Hi (insert accounts payable name here)

It is (insert name here) from (Insert Company Name here).
I am contacting you to follow up an overdue invoice. I have sent you a few emails and just really need to know when we can expect this to be paid. The invoice is now more than 30 days overdue and this is really impacting my business.

Quote the invoice details:

Invoice Date: (insert date of original invoice here)
Invoice No: (insert invoice number here)
Invoice Amount: (insert invoice amount here)

Try and get a commitment to get the invoice paid that day. If they cannot pay it that day, ask when it will be paid.

Ensure you follow up on the day that they say it is going to be paid and if it is still unpaid then move to the formal letter of demand.

Making Direct Contact with your Customer – Example 2

Guide to Follow Up an Overdue Invoice via a Phone Call.

Hi <insert name>,

This is a quick call in regards to the Invoice <Invoice Number> to remind you that your payments of <insert amount> for <insert what they are paying for> is still overdue. The last payment we received was on the <insert the last payment date> which means that the total outstanding is now <insert the total outstanding>.

You can pay the outstanding amount by direct deposit into our account. The account name is <insert account name>, the BSB is <insert BSB> and the account number is <insert account number>. Please make sure you put your name or quote this number <insert number> when paying by direct deposit into our bank account.

If for some reason you believe you are unable to pay the outstanding amount at once and would like us to provide you with a payment plan please.

Ways To Avoid Bad Debt Occurring

To reduce the possibility of customer bad debt in your business you can:

1. Perform a thorough background check on a business before offering credit
2. Set safe customer credit limits
3. Only release goods when payment has cleared
4. Wait for direct deposit payment to clear before shipping any goods
5. Send invoices out as soon as a job is complete, or on a regular date
6. Clearly state all payment options and information on your invoices or contracts to make it easier for Customers to pay you
7. Keep regular contact with your customers
8. Offer a small percentage discount for early payment of bills

Planning and Monitoring your Cash Flow

Planning and monitoring your cash flow is one of the most important things you can do when running your business. This should also include how you will address cash shortfalls or surpluses if they occur.

New businesses often make the mistake of:

- Holding too much and/or obsolete inventory.
- Over Trading.
- Not paying Prudential or other Critical Creditors on time.
- Not monitoring expenditure.
- Extending unnecessary lengthy repayment terms to debtors.

Not paying Prudential or other Critical Creditors on time.

Holding too much and/or obsolete inventory.

Over Trading

Not Monitoring Expenditure

Extending unnecessary lengthy repayment terms to debtors.

Impact of Growth on Cashflow

Experiencing rapid sales growth can be a great thing for business, but it can also be the downfall. It is important to manage growth properly.

As businesses experience rapid growth they are constantly looking to add more services or stock on the shelf to keep up with demand. This demand tends to consume all available capital during peaks and may require a capital injection during troughs. Once you have completed a cash flow budget it will be apparent as to how much cash you will need, when you will need it and why you need it.

You may find that you will generate sufficient cash each month to meet the bills however others may find that their business is seasonal and has some months quieter than others.

6 Ways to Keep your Business on Track

Forecasting and Budgeting

Once you know your Budget, you can start to measure results and forecast what you need to stay afloat.

Set clear payment terms

Know your payment terms and invoice as soon as work is completed. Small businesses should push to get payment within 30 days of invoicing but negotiate the longest possible terms for accounts payable.

Make it easy for people to pay you

Firstly, ensure you have a business bank account. It's best practice to keep your business and personal finances separate. From here, make sure you have the proper infrastructure in place so that customers can pay you via a variety of secure options, including online payments, bank transfers and credit cards.

Offer retainer packages

Retainers offer the client a slightly discounted rate, but getting paid up front rather than in arrears allows you to better forecast your cashflow. And it gives peace of mind.

Get help to monitor your cashflow

If you have regular substantial outgoings and an unpredictable income stream, it is crucial to have someone dedicated to keeping on top of things.

Have strong business objectives and find new business

Business owners of all sizes must consistently build a pipeline of new business and new work for the coming months.

The Importance of Cashflow and Budget Forecasts

In order to determine the liquidly needs of your company. It is imperative that cashflow is forecast and accurate budgeting is done.

By creating a cash flow budget you can project sources and applications of funds for the upcoming time periods. You will identify any cash deficit periods in advance so you can take corrective actions now to alleviate the deficit. This may involve shifting the timing of certain transactions. It may also determine when money will be borrowed. If borrowing is involved, it will also determine the amount of cash that needs to be borrowed.

Periods of excess cash can also be identified. This information can be used to direct excess cash into interest bearing assets where additional revenue can be generated or to scheduled loan payments.

5 Elements to Create Accurate Cashflow Forecasts

Use your sales forecasts to project cash flow.

Record revenues upon payment.

Remember recurring variable expenses.

Prepare for unexpected expenses.

Put it all together.
Keeping tabs on your cash flow is crucial. That includes tracking expected cash flow movements such a loan or line of credit (inflows) and the subsequent payments made for them (outflows).

Your Cashflow Forecast Template

Use this sample cash flow forecast as a guide to tracking your incomings and outgoings.

	JAN	FEB	MAR	APR	MAY	JUN
Beginning cash position						
INCOMING						
Cash Sales						
Collections (AR)						
Other income						
A: Total Cash Available:						
OUTGOING						
Accounts Payable						
Overdue: Acc Payable						
General Expenses						
Wages						
Monthly long-term debt						
(principle repayments)						
Other						
B: Total Cash Outflow:						
Month End Cash Position (A-B)						
Short Term Loan Req						
Ending Cash Position						

	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Beginning cash position							
INCOMING							
Cash Sales							
Collections (AR)							
Other income							
A: Total Cash Available:							
OUTGOING							
Accounts Payable							
Overdue: Acc Payable							
General Expenses							
Wages							
Monthly long-term debt							
(principle repayments)							
Other							
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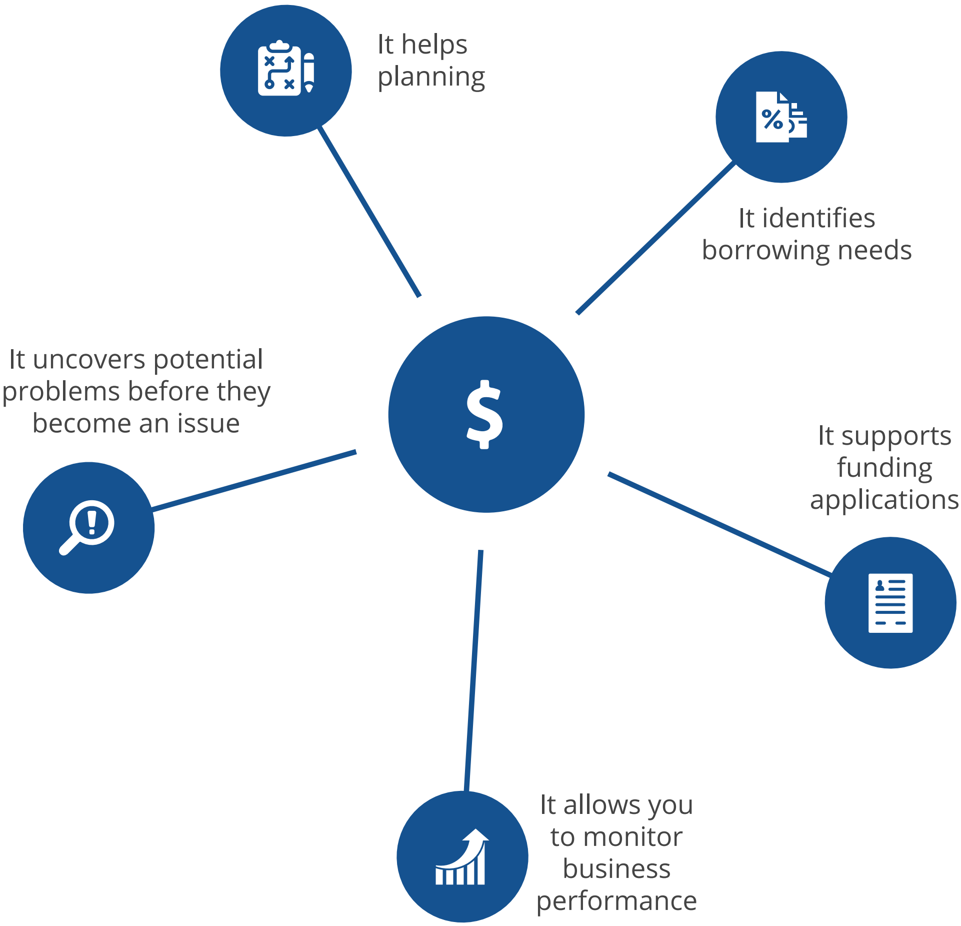
Short Term Loan Req							
Ending Cash Position							

Key Benefits of a Cashflow Forecast and Budget

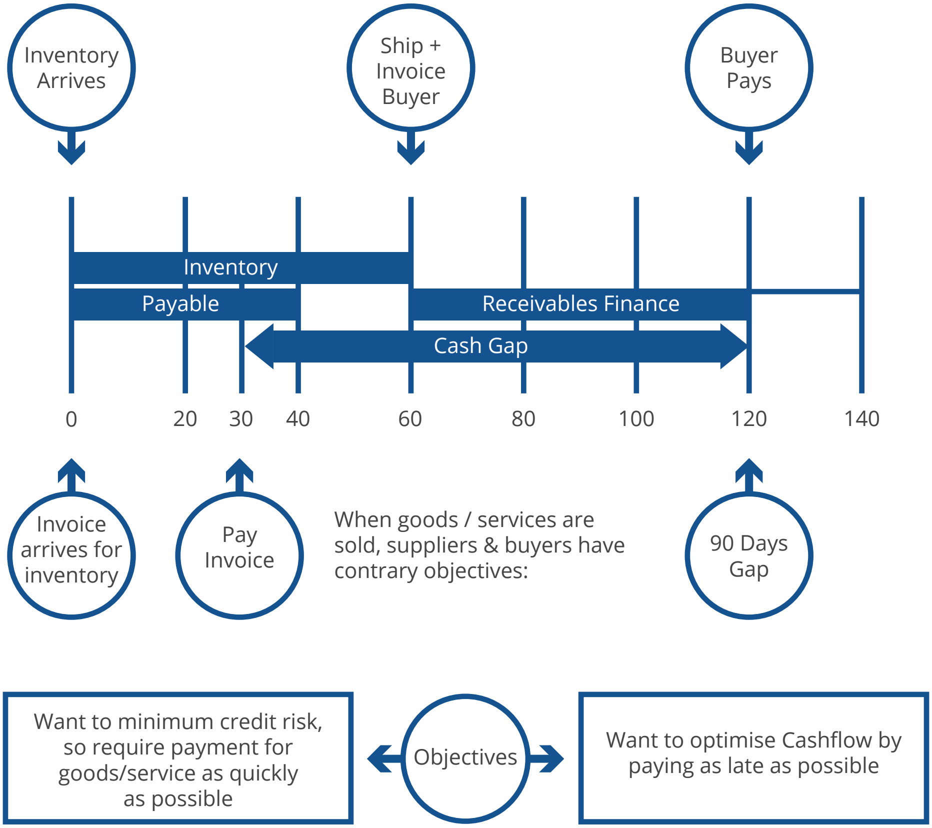


What is The Cash Gap

The Cash Gap refers to the time interval between the date when a company pays cash out for the inventory it purchases and the date it receives cash from customers for the same inventory.

Naturally, all companies would like to have customers pay for the goods before the suppliers demand payment for the goods.

Identifying the Cash Gap



5 Ways To close the Cash Gap

1. You can recover your receivables/ debtors more efficiently.
2. Use savings/net profits, which are, however, a limited source of funds.
3. Operators can look for new equity from an outside investor or sell assets
4. Negotiate extended terms of payment with Trade Creditors
5. Approach a lender or finance broker to provide short term funding.

Thank You

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