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Seven ways to dodge the Christmas cashflow crunch

Tuesday, 29 November 2011 09:38

Madeleine Heffernan



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The year is coming to an end and you can almost hear the sigh of relief throughout Australia's SME community.

Seven ways to dodge the Christmas cashflow crunch



But before you get swept up in the festive spirit, stop and think about the lifeblood of your business – cashflow – and what could happen to it over the holiday period, lest you join that unfortunate list of companies that collapse in the new year after a disappointing Christmas.

Roger Mendelson, who founded and runs Australia's biggest privately owned debt collection company Prushka, says the first quarter is traditionally the most troublesome for small business.

"For SMEs it's a dangerous time of year," Mendelson says.

The story goes something like this. A business pays out holiday pay and leave loading and then finds that less money is flowing in because key sectors of the economy – construction companies, banks, professional services – have shut down.

Businesses dealing with consumers find that throughout January and February people aren't paying because they've spent up over Christmas and often need to pay school fees for the New Year.

The result is often a rush of collapses in the first quarter. Insolvency figures tend to drop in January as the markets and professional services go on holidays but peak in March when it's back to business.

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"Cashflow is usually the indicator that hits a director in the face," says registered company liquidator Cliff Sanderson.

In the absence of budgets, business plans, cashflow forecasts or profit forecasts, Sanderson says "it's when the cash runs low that a director realises there is a problem".

With this in mind, *SmartCompany* presents its top seven cashflow tips to make the best of this festive season.

Don't forget what you owe

If you're lucky enough to have stock running off the shelves, it's easy to get swept up in the excitement of a happy end to 2011.

But put on your sensible hat – not all that cash is yours.

"You might have money at Christmas, but there's holiday pay for your employees and creditors who need to get paid," says Sue Prestney, principal at accounting firm MGI.

Roger Mendelson of debt collection company Prushka says employers often don't properly budget for leave loading of 17.5%, in addition to holiday pay.

"The biggest pay period of the year is December," he says.

Quentin Olde, Sydney partner at accounting firm Taylor Woodings, says it's never too late to take the right steps.

"The best thing you can do is plan for the hangover through February and March," he says. "That means effectively putting away excess cash."

Avoid discounting...

In the past, customers were wont to queue for Boxing Day sales at department stores, and retailers would laugh you out of town for suggesting mass discounting throughout November and December.

As we all know, those days are gone, and another habit – discounting – has become a mainstay for retailers.

Prestney says Christmas, the biggest retail event of the year, is the best time for retailers to ditch the habit.

"You want the full margin, so ideally don't discount," she says.

Remember that unlike last year, we're entering Christmas with falling rather than rising interest rates, so consumers should have more money to spend.

A no-discount policy will also ensure you get the biggest bang from your pre-Christmas sales, particularly if the Reserve Bank cuts rate again next December.

Another incentive for charging full price is it helps customers avoid an unpleasant feeling.

As behavioural economics specialist Bri Williams noted last week, if your product or service is clearly differentiated, a no-discount policy ensures customers won't regret seeing their purchased product down the track at a much lower price.

...unless it's to get others to pay early

Dun & Bradstreet figures released this month show that payment terms for the September quarter averaged 53 days, with two-thirds of business taking longer than 30 days to pay accounts.

D&B chief executive Christine Christian says businesses need to pay attention.

"What happens in most years is that businesses end up waiting until the end of January to get paid if they don't step on it now," she says.

A carrot and a stick approach can help you avoid the waiting game, namely prods and discounts for early payments, and regular and increasingly firm reminders for late ones.

Mendelson of Prushka says accounts – an often overlooked department – can make a big difference.

"Beef up your resources, and get statements out on time."

"Have people on the phone for accounts that are overdue. Make that phone call and ask, 'Is there any reason it's not been paid?'"

"Get a date by which it'll be paid, and then go through accounts that are more than 90 days old, and be fairly brutal in making demands."

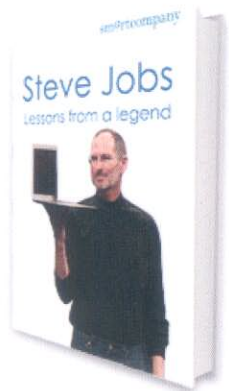
Other practices to consider are promoting credit card or Eftpos facilities, and a polite follow-up call after an invoice has been sent.

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Make cashflow a daily habit

Cashflow needs daily attention, says registered company liquidator Cliff Sanderson. Only then can you identify problems early.

"It's simply a matter of writing it on a page, or better still an Excel spreadsheet, and identifying when the tough times are likely to be," he says.

"I do that in my business every day."

Quentin Olde of Taylor Woodings says cashflow projections need to contain some legroom. "Where possible build a buffer," he says.

Just as John Williams, managing director of Sydney accounting firm Lumina, explained to *SmartCompany* this week that many clients struggle to name the profit drivers in their business, so too do some companies miss the forest from the trees in their balance sheets.

Although a company might be profitable, interest payments and inventory need to be considered for forecasting to have some accuracy.

Keep your creditors in the loop

Businesses can wait too long for business profitability to pick up. In most cases, you'll get a more receptive audience – and a better deal – if you are upfront about when you expect to be in a position to pay.

"Delay, by negotiation, creditors including major suppliers and the Australian Taxation Office," says Sanderson.

"But only do this if you reasonably expect to be able to pay them in the foreseeable future."

Roger Mendelson of Prushka agrees that businesses should be proactive when it comes to their bank.

"If there's going to be a shortfall, don't leave it to the last minute to talk to the bank."

"Banks don't have the resources to respond quickly and you can lose credibility if you ask for immediate help."

"You need to prepare a plan, have cashflow projections, talk about how it'll be repaid."

Consider outside help

Accountants, liquidators, debt collectors – we might not want to deal with them, but sometimes they can help.

Take accountants – they are great for cashflow. "Don't have it pie in the sky; make it almost worstcase scenario," says Mendelson.

Sanderson is right in saying that terminal cashflow problems often require a third-party professional. An aggressive restructuring might be in order.

Likewise, there could be some benefit in outsourcing your debt collection.

Mendelson of Prushka says after you've contacted a customer whose account is more than 90 days old and not received payment within the requested seven-day period, it might be time to outsource the matter.

In the longer-term, reconsider your basics

Sanderson says in the longer-term, directors need to dispassionately assess their business plan and the company's profitability.

"First, do you have a business plan? A marketing plan? A strategy document?"

These basic building blocks cannot be fixed quickly, so start doing this work now and carry it over into the New Year if necessary.

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