

A man with a grey beard and hair, wearing an orange short-sleeved shirt, is shown in profile from the chest up. He is holding a tablet computer in his hands and looking down at it. He is standing in a vast agricultural field with rows of young green plants stretching into the distance. The sky is filled with large, white, fluffy clouds. The overall scene suggests a farmer or agricultural professional using technology in the field.

BUSINESS FUEL

MAKING MONEY HAPPEN

**ULTIMATE
GUIDE TO
IMPROVING
CASH FLOW**

Cash flow is the lifeblood of your business. There are plenty of complicated strategies and complex business philosophies out there. But, what you really need is a simple, easy to implement guide to improving cash flow, fast. You're in the right place. Because we've put together an Ultimate Guide to Improving Cash flow that is practical, jargon free and effective.

GET FLOWING

BUT FIRST. WHY IS IMPROVING CASH FLOW IMPORTANT?

Because positive cash flow = freedom. Improving your cash flow is beneficial for every element of your business. The basic principle is that you need significantly more money coming in than going out. Why? There are two big reasons that improving your cash flow should be top of your to-do list:

1 SMOOTH SAILING

Business gets stressful when the cash is tight. When you are constantly worried about making ends meet, your business cannot thrive. Improving your cash flow gives you a great safety net and means that business is smooth sailing.

2 GROWTH

High cash flow means that you have the flexibility to make good investments. Hire that extra employee, open a new location or execute a marketing campaign - all totally guilt free. Your business has room to grow when the cash is flowing well.



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THE BASICS

The first step to improving your cash flow is assessing where you and your business are at this point in time.

Thinking clearly about your current situation is key to working towards a healthier cash flow in the future. After all, a personal trainer is no good if you don't know what your weaknesses are. So, it's time for a trip to the doctors!

HEALTH CHECK

STEP 1.

Calculate Your Gross Profit Margin

STEP 2.

Find the Holes

STEP 3.

Mend the Holes!

STEP 4.

Books and Banking



CALCULATE YOUR GROSS PROFIT MARGIN

Your gross profit margin is the amount of money left over from revenues, once you've paid the cost of goods sold. The higher the number, the healthier your cash flow. This formula assesses how profitable your business is.

WHAT IS YOUR COGS (COST OF GOODS SOLD)?

When calculating your COGS don't just think simply about how much you spend on what you sell. Think about the broader costs that contribute to this: How much do you spend on packaging for your product? What about the electricity bill for your business? Be sure to measure these numbers on the same scale (i.e how much is your COGS for a month?). Then, when you are calculating your margin, use the same scale again for revenue.

HOW TO CALCULATE GROSS PROFIT MARGIN

1. Identify your COGS. How much do you spend on your stock/goods/services?
2. Find your revenue. How much do you sell these for?
3. Subtract the cost from the revenue. This is your gross profit.
4. Divide your profit by your revenue.
5. Express it as a percentage.

EXAMPLE

Walt sells blue diamonds. Each blue diamond costs him \$2,500 and he sells them for \$5,500. His gross profit is \$3,000. When he divides this by the revenue, he calculates that his gross profit margin is 54%. Go Walt!





FIND THE HOLES

Every business has a cash conversion cycle.

Your cash flow cycle is the process of turning your resources into cash.

From acquisition of goods to point of sale and receipt of income, cash flow problems are often due to a hole in this cycle.

HERE ARE SOME COMMON HOLES IN CASH CYCLES:

- There is a large gap (10 days or more) between sending invoices and receiving cash.
- The time between contract signing and payment is significant (more than 30 days).
- There is a gap between completion of service and sending of invoice.

Do any of these sound familiar?





MEND THE HOLES!

Cash cycle problems are common and there are plenty of easy fixes to set you right again. Here are some hole-proof cash cycle mottos.

'TERMS AND CONDITIONS ARE MY BEST FRIEND'

Learn to love legal papers. Having clear contracts is essential if you expect to be paid the right amount at the right time. Make sure to state the terms of payment, timing expectations and conditions of cancellation.

'BILL FAST, EVERY TIME'

Send your invoices immediately. As soon as the contract is signed or the work is completed, send the bill. If you're not in a habit of sending invoices quickly, you are delaying your payment and creating a hole in your cycle. Instead, send invoices ASAP to be paid ASAP.

'CHASE THE CASH'

Perhaps your problem is not slow invoices but slow payments. Your clients take forever to pay their bills which is creating a cash flow problem. It's time to chase the cash. By stating clear terms of payment in your contract, you're one step ahead of the game. If your clients do not abide by this contract, you need to follow up. Send payment reminders, email, call, hire a third party debt collector - establish a reputation as a business which takes itself seriously and expects to be paid.

'BETTER SAFE THAN SORRY - TAKE INSTALMENTS'

If you have long term contracts, ask customers to pay in instalments. Use a deposit and have a contract which includes payment terms tailored to your cashflow. You can choose to be paid based on signposted delivery goals or simply split the total cost over several instalments. So, if a client hires you for a \$10,000 project - do not wait until final delivery for the payment. Instead, get a 20% deposit before you begin and then ask for several payments along the way. This ensures a healthy cash flow.



BOOKS AND BANKING

The final step in this section takes it back to business basics - bookkeeping and banking. In order to assess where your cash flow problems are, examine your financial patterns. The best way to do this? Hire an accountant. Not just an average accountant - invest in the best. They will help you analyse your bookkeeping and start you out on the right foot for improving your cash flow.

ONE SIMPLE BANKING TIP:

Separate your business and personal accounts. This means that your cash flow is easier to keep a track of.



DECREASE OUTPUT TO INCREASE INPUT

Are you stressed about your business costs? Are they affecting your cashflow negatively?
Put a stop to money haemorrhages and improve your cash flow.

WHERE IS THE PROBLEM?

RENTAL

For businesses which a shop front or office space, rent is often a huge cost. If your cash flow is struggling, it may be worth rethinking your rental arrangement. Finding ways to decrease the cost of rent is a great way to improve cash flow instantly!

Ask yourself the following questions:

- Do I need a space this big? Why?
- Do I need a space in this particular location? Are there cheaper locations I should consider?
- Do I need a permanent space at all? Could I manage a remote office or work from home? What about pop-up options?
- Do I have the cash to invest in owning a space, rather than consistently losing money to rental costs?

STOCK

Your cash flow may be suffering from poor inventory keeping. Your stock is unconverted cash, useless to you until it is sold. Make a commitment today to keeping a vigilant eye on your inventory and monitoring how much stock you use and when. By better understanding the demands of your customers and the patterns of your business, you can predict your stock levels better and purchase sustainably. Do not overstock - protect your cash flow.



STAFF

Don't hire employees for tasks you should be doing for yourself. Think carefully about staffing and only hire employees when really needed.

This is especially true for the early days of business ownership. Do you have staffed positions which drain more money from your business than they bring? Are there tasks you are equipped to handle yourself?

There is a smart alternative: contractors and freelancers! In house employees have a major effect on cash flow - whereas one off or occasional contractors are affordable. Need a communications team for an upcoming marketing campaign? Hire a freelancer. Want some admin help? Outsource. This is a great way to protect your cash flow and invest in your business at the same time.



DON'T OVERCOMMIT

Improve your cash flow by thinking smarter about loans. Here are three easy rules to keep you and your cash flow safe:



RULE #1

Borrow within your means. A \$50,000 loan may seem more attractive, but a \$25,000 may be more realistic.

RULE #2

Don't overcommit on loan repayments. Understand your cash flow and arrange for payments which fit into that rhythm.

RULE #3

Take what you need and no more. Don't overextend yourself. And if you're still feeling uncertain, chat to us at Business Fuel. We've got a fantastic team of experienced Lending Manager (with a wealth of knowledge) who will take the time to listen to your needs and circumstances, before they tailor funding to your small business's specific needs.

SURVIVING THE DROUGHT

Every cashflow has dry spells - it is how you deal with them that matters. Prepare in advance to reduce the effects. Think like a cactus! Improving your cash flow, even in seasons of business scarcity is possible. Here's how:

DIVERSIFY TO THRIVE

In times where your primary earning capacity is reduced, think outside the box. For example, let's imagine Simon owns a Christmas decoration store. Between November and January, his cash flow is high as the sky. But, the other months of the year are not as easy for poor old Simon. Then, he has a genius idea. He will diversify! He starts to sell Easter themed decorations, Halloween costumes and even Australia Day memorabilia. This means his cash flow is steady throughout the year, even in times of drought. If you're a wedding photographer, maybe you could offer family portraits when it isn't wedding season. If your personal training clients suddenly dry up - try running an excess based kid's club. The options are endless when you put your mind to it.

REDUCE COSTS

When the going gets tough, the tough get ... cutting. If your cash flow is seriously suffering, it is time to get serious about cutting costs. Give up your office space and move into your garage for a few months. Whatever it takes, be prepared to cut costs in order to preserve that precious cash flow.

COMBAT WITH MARKETING

If business is slow and your cash flow is quickly disappearing, invest in some great marketing. Launch a new campaign and work on increasing your brand's memorability. This will grow your customer base and help you fight the drought.



READY TO IMPROVE YOUR CASH FLOW?

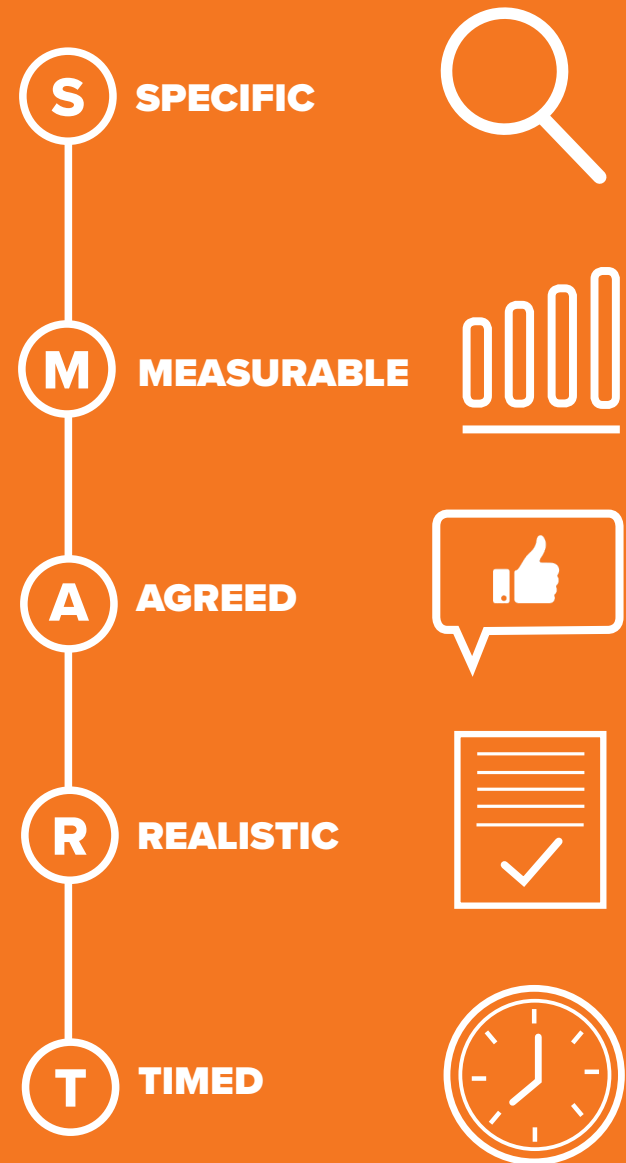
GET SMART.

By now, you know the basic guide for improving your cash flow:

- 1 Assess your current situation. Think through your gross profit margin and cash conversion cycle.
- 2 Decrease overhead costs.
- 3 Don't overcommit on loans.
- 4 Prepare to survive.

But, are you ready to create an action plan specific to your cash flow? If so, you need to create SMART goals.

Think through the various pieces of advice in this guide and make a plan to move forward. Using the SMART goal outcomes, you can make sure your goals are achievable. This means instead of just aiming to reduce overhead costs - you aim to make specific cost cuts by a certain time. What are your SMART goals to improve your cash flow? Sit down with your team (and your accountant!) to make a plan.



IMPROVE YOUR CASH FLOW, IMPROVE YOUR BUSINESS

A high cash flow which allows a flexible, growth oriented and smooth sailing business. If you're uncertain how to forecast your cash flow, make sure you download our free Cash flow forecast template on the Business Fuel website.

By following these easy to implement steps in this guide, you can transform your cash flow in no time.

And of course, if you are needing the extra capital to step into the right direction with your small business. Call us on 1300 660 681 or contact us by visiting our website.



CONTACT US

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