ausBIZ

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THE BUSINESS NEWSLETTER FROM AUSWILD & CO
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MANAGING THE POST FESTIVE SEASON CASH FLOW

For most businesses, the start of the festive season also means the start of the two (or even possibly three) quietest months of the financial year. Most people also tend to be away during this period and for some businesses, invoices may not get paid. Cash seems to dry up but you still have to pay salaries and wages and other fixed expenses such as rent. This puts enormous strain on your business cash flows. It is therefore imperative that business owners and their managers understand the cash flow concept as opposed to profit.

It has been said that profit is just a creation of us, bean counters, and should not be confused with cash. Remember, cash you can spend; but profits, you can't! Cash flow is the life blood of your business – without it, your business will not survive.

Here then are some ways to help you improve that vital flow of dollars through these tight months:

- Have your financial controller/accountant prepare a detailed cash flow statement to see if your business is going to be struggling over the next couple of months. Have a cash flow plan to help you through the quiet period and if there are shortfalls, look for ways to deal with it. Above all else, monitor it continuously.

- Utilise the credit card system or EFTPOS for customer payments – it is far better than providing the finance yourself. Do you need to advance credit at all? Business owners in rural areas in particular, need to change their customers' mindset from expecting credit to paying cash or using their credit cards for payments. If your customer tells you he/she hasn't got a credit card or can't get one, do you really want to extend credit facilities to him/her? Train your staff to ask for cash.

- Anticipate large billings and send invoices as soon as goods are delivered. Regard the billing cycle as sacrosanct. Make sure that your staff understand that it's the invoices and statements that pay their wages, and that the sooner they are sent out to your customers, the sooner you can get cracking on collecting them.

- Set priorities when sending out invoices or doing telephone follow-up calls. Go for the biggest amounts first. Alternatively, go for the debts which you feel will respond promptly but, make sure that every debtor is eventually followed up.

- The creditors who chase early and hard are generally the ones who will get paid first. Don't be the last on your debtor's list to contact them – you may find your debtor may have no cash left to pay you.

- Set firm policies for collecting accounts receivable. Have your debtors clerk call any slow paying customers the day payment is overdue. Train…train…train your staff in procedures and methods on how to ask for the cash……***YOUR*** cash!

- Consider giving cash discounts for prompt payment. No one likes to give away a part of the profit ……but sometimes you need to "*spend a cent to reel in a dollar".*

- Drop that crazy accounting method of reflecting "30/60/90 days overdue" from your monthly statements. A debt is either *current* or *overdue*.

- Understand the billing cycle. Arrange to send invoices/statements before the end of the month. An invoice dated *30 November* will be paid a month earlier than one dated *1 December*.

- Sell on closer terms – that is, require payment in 7 or 14 or 21 days rather than the usual 30 days.

- Settle customer complaints or queries promptly. Often customers withhold payment because of some minor dissatisfaction or query.

- For accounts *in dispute*, empower your managers to negotiate a settlement rather than prolong the debt in the hope that you will receive a full amount on satisfactory resolution of the dispute. It is sometimes better to receive 50% or 75% of the debt now rather than have the debt outstanding for periods in excess of 90 days.

- Guard against selling to customers who are exhibiting signs of being in financial difficulty or who are rumoured to be in financial difficulty. Be sensitive to those "good" customers or wholesalers who exhibit radical changes in their buying or payment habits – for example, one who usually pays promptly, who all of a sudden and without explanation, starts paying his accounts 90 or 120 days.

- Play the credit card game yourself. Use your credit cards to pay your business expenses whenever possible. That way, you not only give your business up to 55 days extra credit but you also accumulate frequent flier points along the way.

- Control your inventory!

  And, remember – ***Cash is King!*** Many a retailer has gotten into strife and folded when they have taken their eyes off the ball and allowed inventories and working capital to get out of hand.

OFFICE CLOSURE:

Our office will be closed from 12:30pm Tuesday 23 December and will re-open for business on Monday 12 January 2026.

We take this opportunity to thank you for your support during the year and we wish you and your families a ***MERRY CHRISTMAS*** *and a* ***HAPPY NEW YEAR!***

Important: This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without prior approval.