

factsheet

Lessons of the GFC: Positive Cash Flow – “Cash is King”

The Global Financial Crisis (GFC) caused without doubt one of the most turbulent economic periods in recent times. Whilst we can all identify the negative impacts it had on business, it is important that as the economic pendulum starts to swing, we reflect on the lessons of the GFC and carry these forward to use as part of standard business process.

Business profitability is nothing without cash flow. It is therefore important that as your business builds on the forward momentum of the next upswing, the profit earned is converted to cash in a timely and efficient manner. Detailed below is a succinct list of strategies which must be employed to ensure that the profitability of your business translates to business wealth and long term prosperity:

1. Minimise the job lifecycle - the time between submitting the price proposal to final payment
2. Do not wait until the end of the month to issue invoices - invoice at various times during the month
3. Set a credit policy for your business and communicate this to your customers
4. Ensure that you enforce your credit policy with your customers - actions speak louder than words
5. Employ the services of an Accounts Receivable Manager. The squeaky wheel will get the oil
6. Always perform credit checks on new customers and continually monitor the financial health of existing customers
7. Set profitability AND cash flow budgets each year and monitor these on a regular basis (monthly/quarterly depending on the size of your business). Ensure your cash flow budgets are accurate with respect to the timing of the cash inflows and outflows and complete with respect to the inclusion of all expected inflows and outflows
8. Implement a reliable stock management system to ensure stock levels are maintained at appropriate levels. Always remember, if you could replace your stock with \$50 notes, your warehouse and fleet vehicles would be better stocked than most modern bank vaults
9. Introduce easy payment options for your customers – giving your customers a variety of simple payment methods assists in receiving payment on time and increasing cash flow efficiency
10. Liaise with your professional advisors to ensure you monitor the quantum and timing of the business tax payments to limit any unexpected surprises

There is a well-known business phrase – “Cash is King” and if one piece of advice stands above all others to position your business ahead of your competitors, it is to be focussed on cash flow.

It is also important to understand the difference between the role of cash flow, which covers your business’ day-to-day expenses, and the role of profits, which are used to pay back debt and support long-term growth.

Should you wish to discuss the above issues in further detail, please do not hesitate to contact Marsh Tincknell on 07 3422 8000 or info@mtaccountants.com.au