

Is good cash flow management enough to save your business?

Like never before, business is being encouraged to actively manage their cash flow. The global financial crisis has put cash management under the spotlight as companies, large and small, fail. In the SME sector, cash flow issues are the most common cause of failure. Businesses simply run out of cash and collapse or are forced into liquidation by creditors unwilling to take on any further risk.

Similarly, fast growth businesses often find themselves under pressure to manage cash flow. Rapid growth and the extra demands it places on working capital put the business under pressure. In some cases they struggle through, in others they fall over in the growth phase.

Cash flow management is important; you need to understand your cash flow cycle, the demands of extra trading stock, the impact of increasing debtors and the effect and timing of your basic operating costs. A good cash flow forecast is essential for any well run business. You need a realistic forecast that has been worked up from the operations and budget projections of your business. This should then be accompanied by some sensitivity analysis, which is simply alternate forecasts that assess the effect if your basic assumptions are out by 10%, 20% or 30%.

Important as it is, the question remains, is cash flow management enough? The answer is no. Unless your cash flow forecasts are accompanied by a capital management plan you aren't in control of your business.

Capital management starts by identifying how much capital the business needs and how much is being provided by the owners. The reality is that your business is only funded from capital, debt, and retained profits. In the early days of the business, there are no retained profits so it comes down to capital and debt. Many businesses work through this phase despite often being undercapitalised (and in the process elevating the pressure that they operate under).

From the start there is a continuing requirement for capital management. This is about understanding:

- The initial requirements of the business
- Additional capital that will be required to fund growth
- The timing and amount required to replace or upgrade capital equipment
- Funding required to repay loans and retire debt
- Taxation requirements
- The expectations, stated or otherwise, of the shareholders for access to profits

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Quote of the month

“Any fool can make things bigger, more complex, and more violent. It takes a touch of genius - and a lot of courage - to move in the opposite direction.”

Albert Einstein

10 secrets of a winning business

Every day business owners ask the question ‘what makes a great business and what do I need to do to move from good to great?’

The recipe for a great business is not about industry, size or location; it's about a series of winning fundamentals that define all great businesses. Let's have a look at them:

1. Vision

The business's leadership can see where the business will be in three to five years. They understand their market and position the business for the future. In many cases, they are market leaders and they drive the direction of the business.

2. Leadership & drive

The owners are true entrepreneurs. They lead and drive the business. Their energy is contagious and their team is excited to be part of the business.

3. Differentiation

They have carved out a point of differentiation for the business. It is meaningful, sustainable and easily articulated. Their differentiator immediately separates the business from its competitors and provides the business with a sustainable competitive advantage.

10 secrets of a winning business

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4. Market presence

Great businesses have market presence. This does not necessarily mean that they have great marketing or are necessarily spending large amounts of marketing. They may drive their business off a very small customer base that produces substantial revenues. Or, they may be highly visible through their marketing efforts. The key is they understand their market intimately and do what is necessary to position the business in that market.

5. Team

The business has developed beyond the owners. It is sustainable through the strengths of a great group of people who bring together a mix of skills. In part, it is great because of the fusion of these skill sets.

6. Strong financial management

The business operators know their numbers and actively manage them. There are few surprises. Most of what happens is predictable. They manage the 'health & hygiene' financial management well and have lead indicators in place that provide early warning signals for any problems that might occur. These lead indicators are in carefully chosen KPIs – generally seven at most, that provide management with essential performance information on the business. They are supported by strong operating budgets, cash-flow forecasts and a strong follow-up system. Stock, debtors, debt and cash all have clear target positions and are actively managed.

7. Great reporting

As focussed as they are on growth, they maintain strong corporate governance and a reporting system that meets the needs of all stakeholders. Generally, this will include regular monthly and quarterly updates, a comparison to forecasts, and the resetting of latest period estimates that balance the past with the future.

8. Sustainable business model

Not just a good idea, not just passion and energy, not just hard work and commitment, great businesses have a sustainable and profitable business model. They bring together all of the elements required to produce a great result in a consistent business format. They have thought through what is required for success. Their focus is on outstanding performance and they will accept nothing less.

9. Operational fulfilment

Great businesses deliver. Others have good ideas or can sell well, but without the ability to deliver, the business is going nowhere. They have worked out what is required and have a strong fulfilment system in place.

10. Adequate capital

They understand how much capital is required and have worked out how to put that capital in place. The owners are prepared to leave profits in the business and manage cost structures down to allow the business to grow and develop. They know how to feed the business.

If you want to know more about how to become a winning business, talk to us today.

Is good cash flow management enough *continued*

None of these items appear in the operating budgets of your business, yet each of these suck cash from the business. You could have a profitable business and be cash flow positive from operations, yet be under significant cash flow pressure. Here are some questions to ask yourself:

1. Does your accountant sometimes tell you how much profit you have made and your first response is, where is it?
2. Do you fund your depreciation?
3. Do you have a clear dividend policy?
4. Do you review and confirm your capex budget each year? (If you don't know what a capex budget is, then the answer is probably no!)

If you answered 'yes' to the first question and 'no' to most or all of the next three questions, then you don't have a capital management plan in place. If you are serious about your business, want to risk manage it and grow it successfully, then a capital management plan should be right on top of your 'to do' list.

If you would like to find out more about capital and cash-flow management can improve your business, contact us on t: 07 5593 3555 or e: info@marzollholloway.com.au