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## RETAILING

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# Keeping the cash flowing

**IT'S TOUGH OUT THERE** in retailing. You read the papers, you walk through the shopping malls, and retailers are closing up or being bought out. It's been a long time since retailing was so tough. Having personally gone through the extreme highs and the lows in retail, I can now comment on why I feel a lot of retailers are going through hard times.

Whether you are a start-up, small business or a multi-national, cash flow is imperative to business survival. Retailers have gone through a stop-start love affair with cash flow management, by putting out fires when they arise, rather than implementing some simple management tools.

To understand how to manage cash flow, you must fully understand what its components are:

**Pay accounts slower** – Your suppliers that you have good relationships with should give you some leeway with time frames to pay your accounts. Sometimes we chase the discount that is given for early payments on accounts, but should ask ourselves if that discount will make a major impact to the bottom line. Remember – don't mistake profit (the money that you make after you have paid for everything) with cash flow (the money that pays the running and growth of the business).

**Reduce inventory** – Retailers are generally very good at doing this. But rather than slashing prices, have a look at some other alternatives such as: setting open-to-buy budgets; standardising layouts across stores that maximise sales in core departments; reviewing/implementing a replenishment program; concession arrangements with suppliers; and returning stock that has

not sold and replacing it with faster moving lines.

**Collect accounts receivable** – Because most retailers don't have large accounts outstanding, this really applies to those who have a corporate section of their business. If you are a retailer that has account systems in place, look at ways to reduce the terms of the account from 30 days down to 14 days, or take deposits.

**Reduce costs of goods** – Internally this would be your processing in which you receive, store, and distribute stock. When dealing with suppliers, organise strong trading terms, which gives you more margin in the backend for rebates, co-op advertising and return-to-supplier programs.

**Increase prices** – “You're insane, you can't increase prices, we'll get murdered out there.” Yes, retail is competitive, and the majors have pushed everyone into discounting mode to increase sales. But without freaking you out, have a look at the stock on the floor, and determine which items you have that experience high levels of competition (and keep these prices competitive), and review the items which have little or no competition (and increase the prices of these products).

### Stopping the leaks

In understanding what makes up cash flow, retailers should put in strategies to ensure that they maximise their cash position at all times. Here are some simple strategies that can be implemented in your retail business.

**Measure stock turns** – This is the cost of sales times the cost of goods in stock for a 12-month period. So if you had \$1 million of total inventory for the year, and sold \$1 million at cost, you would have one stock turn a year. The benchmark is

to have four stock turns a year, to maintain a healthy cash flow.

**Measure wages as a percentage of sales** – Setting a benchmark on wages as a percentage of sales is a very basic, but important, strategy. Remember to factor in all of the add-on costs that are associated to wages such as commissions, payroll tax, superannuation, workers compensation, etc. Also when deciding on your wages percentage target, look at what you can afford within your margins, and also adequate floor coverage, so in order not to miss any sales opportunities.

**Measure marketing expense as a percentage of sales** – It is amazing how many businesses burn cash on useless or over-marketing expenditure. Some of the budgets are plucked out of the air, with no real understanding of how it impacts cash flow. Then when times get tough, retailers rein in advertising, which compounds on the loss of sales. Set yourself a marketing expenditure budget based on a percentage of sales, so that you don't overspend, or lose traction when business slows down.

**Evaluate your rent expenditure** – Evaluate your location strategy on a regular basis, if you can rent cheaper premises without hurting the business, then move. We know how hard it is negotiating rents with a major shopping centre, which is why we focus on location strategy rather than negotiating a cheaper rent. ●

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