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RETAILING TONY GATTARI

10 tips to break the cash flow drought

WHEN ECONOMIC hard-times hit, one measure more than any other separates the retail survivors from those that fall by the way – cash flow.

In boom times, many retail owners naturally turn their focus to measurements like sales and profit, but when things slow down it is cash flow that is the key test of business health.

The good news is that there is plenty a retailer can do to turn a cash flow trickle into a flood.

Here are 10 best tips for boosting cash flow.

1. Put together a good cash flow forecast

– A cash flow forecast is a key diagnostic tool for the health of a business. Without one, getting your business's cash flow right is almost impossible.

Many retailers operating without a cash flow forecast don't even realise their margins are coming under pressure.

Small retail owners in particular often shy away from putting together a forecast because they find it hard to gauge the effect different factors will have on cash flow – events like the introduction of a new product line, marketing venture or extra staff member can have an uncertain impact.

2. Communicate from day one – Once you understand how cash moves through your retail business, you can start taking action to increase cash flow.

In the current economic and credit climate, there is one key challenge most retail owners are likely to face in bringing more cash in the door: getting customers to pay on time.

Constant communication is the crucial first step to improving debtor days.

Communication with clients has to start from day one, with new clients receiving a notice clearly setting out how long they have to pay bills – and the consequences if they don't.

3. Check the credentials of new customers – New customers are great, but

new customers that actually pay are even better. The problem is, it can be difficult to tell one from the other until it is too late.

One measure that can help you avoid the duds is a standard credit check for any new client that will be offered credit.

4. Give your customers a reason to pay – Reminders and checks may get the debtors paying in good times, but when things are tight a little extra something will often be necessary to bring in the cash.

A tool many cash flow advisors believe is effective, if costly, is the discount for early payment.

If a discount doesn't make financial sense, consider offering other benefits for prompt payment such as a higher level of post-purchase service or priority access to new stock.

You can also make paying your bills less painful for your clients by allowing them to pay in instalments, helping them smooth out their cash flow and giving you some increased security.

5. Spend more time ensuring your big clients pay – Small businesses that rely heavily on dealing with a few, big clients, often find themselves in a bind when it comes to cash flow – desperate to be paid, but petrified of losing a key customer.

Managing big clients requires a careful approach, with plenty of care and attention backed by a firm commitment to being paid.

6. Encourage staff to bring in the cash – Many retailers reward staff for boosting sales. During a downturn, cash flow management is arguably more important, so why not give staff a real incentive to help make it happen?

This can mean introducing a performance-based component for accounts receivable staff, but often improving cash flow requires an organisation-wide effort.

It can often be worthwhile to direct at least a portion of your sales team's commission structure towards ensuring the customers they sell to actually pay.

7. Debtor finance can help in a tight spot

– There are a range of finance options available to retail businesses that can provide an immediate boost to cash flow – at a price.

8. Be disciplined – If sweet-talking, phone calls, or discounts don't get your debtors to start paying, they need to know that you won't be afraid to bring the in big guns.

9. If you can't be disciplined, outsource to someone who can – Retail owners are notoriously time poor. Many just can't devote enough time to debtor management, or regret the sacrifice required to other parts of the business if they do.

For businesses that want to beef up their debtor management, but don't want to build an in-house accounts receivable capacity, outsourcing can be an option.

The key test of whether outsourcing will work for a business is how it fits into the bottom line, with the cost of the service balanced against the prospect of improved payment rates and the convenience of somebody else managing your debts.

10. Don't grow yourself out of business

– Cash flow management may become imperative during economic downtimes, but periods of rapid growth can present equally difficult cash flow challenges.

We see as many retailers going broke through expanding as contracting, because they don't understand how to balance growth with things like capital investment as their company grows. ●

■ The author is founder and Chief Energy Officer of Achievers Group. He is a much in demand passionate professional speaker, business educator, author and corporate business advisor. Tony has worked with over 140 businesses around the world.

Website: www.achieversgroup.com.au

Email: tony@achieversgroup.com.au

Phone: 0410 538 521

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