

Tips for managing your post-Christmas cash flow

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The post-Christmas period is traditionally tough from a cash flow perspective for small businesses. It's all too easy to become forgetful about invoicing and chasing debts when you're caught up in the festive season. The result is a bad cash flow hangover, from which it can take months to recover.

But there are ways to ensure cash is still coming into the business after the tinsel has been taken down to ensure healthy finances in the new year.

Brad Callaghan, a director of business advisers and accountants Callaghan Partners, says when it comes to keeping cash flowing through a business, a good idea is to ask for all or a portion of a payment up front.

"If there is an expense that you need to pay in order to make a sale you should also ask for an amount up front to cover that cost, so you aren't out of pocket," he says. Another of Callaghan's tips is to offer a special discount for full payment up front, which induces clients to pay the entire amount of their invoice in a lump sum.

The new year is also a great time to sharpen up your payment terms. Now's the time to start offering 14-day payment terms, rather than 30-day terms – at least for new clients.

Michael Prior, principal of accounting firm PB Advisory Group, agrees that in the period after Christmas when small businesses often have a quieter time it becomes more important than ever to properly manage cash flow. He says small businesses must avoid becoming their customers' banker, especially when it comes to negotiating payment terms.

"Resist the temptation to have your customers dictate payment terms. There is a growing trend among multinationals to extend their payment terms out to 90 days. You must determine whether the business is worth it. Can you afford to provide credit for 90 days? Most small businesses can't and you should use a cash flow plan to determine if you're in this category.

"It's also important to be upfront about your payment terms when you get a new client."

"Also, why not charge a late fee and interest on overdue amounts? The banks do it on credit cards so why shouldn't businesses do it, too?" Callaghan asks.

Importantly, issue invoices on completion of the job, rather than at the end of the month; but pay creditors strategically, says Callaghan.

"Don't pay until the invoice due date and approach the ones that you know to extend your terms."

Don't stick your head in the sand

Melanie Miller, a business coach with Agent 99, agrees now's the time to negotiate with your creditors. "Don't stick your head in the sand or avoid calls coming in from creditors to whom you owe money. Be honest and set up a payment schedule that works for you both.

“Often, a creditor will be grateful for part payments as long as you are making an effort to pay down your invoices. Avoiding these calls can damage your ongoing relationship and you don’t want to do that.”

All too often, businesses forget to chase their debts over the Christmas period, or find it tricky to talk to the relevant accounts person, who may be on holidays. But by the time the Australia Day weekend is over everyone’s back at their desk and there’s no excuse for not chasing overdue accounts.

“While most of us hate ringing up to chase an unpaid invoice, the sooner you make contact with your customer after the bill has passed its due date, the more likely that it will not turn into a bad debt,” Prior advises.

Miller says she sees businesses struggle every February when they need to pay their BAS. She agrees debt collection is paramount.

“Stay on top of your debtors. It is so important to have a debt collection process in place that ensures you are contacting – preferably by phone not email – the customers who owe you money. If your cash flow is tight theirs will be too. The squeaky wheel gets the oil – customers will pay whoever asks for payment first and regularly.”

Another of Prior’s tips for managing cash flow is disciplined inventory management. “Don’t buy bulk quantities to obtain a discount if it will be difficult to offload the stock. This is especially important for businesses in which currency of stock is important, such as food outlets and fashion retailers,” he explains.

Even though tax might be the last thing on your mind over the holiday period, unfortunately it’s an obligation that’s not going to disappear. So make sure you plan and manage your tax obligations right throughout the year, not just at tax time.

Says Prior: “As a matter of priority, we recommend clients ensure there is sufficient cash to meet tax, GST and PAYG liabilities on an ongoing basis. It’s an idea to open a high-interest online bank account and transfer the cash to it when you calculate your tax liability. If you have a weekly payroll, transfer the PAYG tax each week, as well as net GST receipts and a third of your quarterly tax instalments each month.

“This will ensure that you have the cash to meet your obligations and don’t fall foul of the tax office.”

Finally, Prior says the new year is the perfect time for businesses to review their cash flow plan.

“We cannot emphasise enough the importance of having an accurate cash flow plan. It will enable your business to survive in tough times and grow profitably in the good times. By reviewing your cash flow plan you will know when your peak demands for cash will be, allowing you to manage your cash more effectively,” he says, adding that demonstrating a sound understanding of the cash flow in your business has flow on effects to other areas.

“If you can demonstrate to your bank that you understand your business and its cash flows, the greater the confidence it will have in your ability to repay any financing it may provide,” he says.

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