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RETAILING TONY GATTARI

Hastening slowly with sales

LET'S SAY YOU handed your bank account details to a chronic gambler. How well would you sleep at night? How long would it take until you had no money left? I guess that not many people would be silly enough to give their bank account details to a chronic gambler, yet many retail owners leave their financials with a book keeper, accountant, or internal finance employee, without looking themselves at the numbers. That's taking a big gamble.

Let's be totally honest – looking at numbers is not fun: it's downright boring, except for accountants.

I'm not suggesting that all retail owners have abdicated their responsibilities, or that they should take back the accounts and banking duties. What I am saying is that retail owners must become better finance managers; not people who process finance data, but managers who review key financial statements of the business including cash flow, profit and loss, and balance sheets on a consistent basis.

Many retail owners focus on the operational needs of the business ahead of creating a robust system for protecting cashflow. In many businesses inefficiencies and shrinkage do lower profits, but not ensuring that you have money in the bank is business suicide. Operational systems cost money. While these systems may be critical to business success, in order of importance, they rank below having cash in the bank. Cash is necessary not only to cover your current bills but also to support the future growth of your business, that is, to fund bringing your vision into reality.

Get your systems in place

Maybe you're thinking, 'why don't I focus on getting more sales in the front door? Sales fix everything'. In my experience, many advisors teach business owners how to rapidly accelerate sales and profitability, which obviously gets businesses excited. However, if you don't have cash management fundamentals in place, you might actually send

your business broke, even while experiencing massive increases to the top line.

Increasing sales is outright fun. So is driving a Ferrari, but you can't drive one every day if you can't pay back the money you owe on it. You can drive the top line of your business hard, but if you don't collect accounts quickly, or you don't turn over stock fast enough, sales revenue will dry up.

Watch Your Cash Flow!

How often do you read your cash flow statements? Yearly, Monthly, Weekly, Daily, What are you talking about?

The main reason businesses go broke is that they run out of cash. If you're not looking at your cash flow at least weekly or monthly, you're on the road to big trouble. Financial prudence is essential for survival and growth. If you can't get a loan from the bank to invest in business growth opportunities, it may be because you don't show enough financial discipline in managing cash flow in your business.

I would rather you be successful in retail than be ill-disciplined and broke. It's surprisingly common for retail owners not to have been taught how to read a cash flow

statement. Table 1 is a sample cash flow statement for a two month period.

The main lines to focus on are:

- **Opening/Closing Bank Balances** (Cash in bank): This shows how much money is in the bank at the start and at the close of the month, after all receivables have been collected, and payments have been made.
- **Revenue:** In cash flow statements this is not how much has been invoiced out, but how much money was collected in accounts receivables for that month. Remember, a cash flow statement reflects how much actual money passes in and out for a period.
- **Payments:** This is your cost of doing trade. The bulk of expenses usually occur in payments for stock, wages, rent and marketing.

In reading these two months you may notice that cash from debtors (or accounts receivable) increased in the month of November. If you collect the money all will be well—this is the common assumption. However, as Parkinson's Law states: The more you earn, the more you spend.

Parkinson's Law is reflected in full glory in the cash flow statement. The business owner has collected 50 per cent more in receivables in November than in the previous month, but has increased spending by a larger 86 per cent. If this was to continue, the owner would quickly have to start using an overdraft facility, and if that was to continue, the sheriffs would soon visit and take away the office furniture. ●

	Oct 08	Nov 08
Opening Bank Balance	10,000	12,300
Revenue		
Cash from Debtors	20,000	30,000
Payments		
Inventory	8000	18,000
Wages	5000	8000
Rent	2000	2000
Advertising	1500	3000
Other expenses	1200	2000
Total Expenses	17,700	33,000
Net cash flow for Month	2300	3000
Closing Bank Balance	12,300	9300

Table 1: Cash Flow Statement for XYZ Pty Ltd

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