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RETAILING TONY GATTARI

Improving your retail cash flow

HAVING POSITIVE cash flow in retail during challenging economic times is critical if you want to stay in business. It is even more important if you want to grow your business because it heightens the risk of sliding into a negative cash flow.

If you are experiencing cash flow tightness, then it would be hindering your ability to grow and expand your business as well as maintain your business. Yet in reality cash flow problems are one of the easiest areas to improve as you are only dealing with six areas of your business that need to be improved. These are pricing, accounts receivable, accounts payable, inventory (stock), COGS (Cost of Goods Sold) and general expenses.

Pricing can be a sore point during these times as people are looking to gain more sales and discounting can be seen as a method to do this. Discounting, however, is a sure fire way to decrease cash and put your business into a free fall where you are always chasing cash flow through volume.

Volume sales are the most costly as you have to spend money to get more customers and the more customers you deal with the more it costs you to operate your business but you have less money as you have discounted. Value adding is a much better way to build business.

A large number of businesses have too much money tied up in their accounts receivable when they don't need to. Asking for the money up front is an easy way to improve accounts receivable, taking 30 day accounts down to 14 day accounts is another way and placing a

person on the phone to collect money owing is a must.

Accounts payable is a little more dangerous to work with but if managed can work wonders to your cash flow. If you are paying your suppliers earlier than required eg their payment terms are 30 days and you are paying them in 14 days, then you can start paying in 30 days and this will release cash flow back into your business.

Extended credit

Most businesses use this as a default and keep stretching their suppliers out further and further. Be wary of this strategy and get advice from your business advisor first. Another strategy we have used with great success is to ask your suppliers for extended credit.

Inventory will normally increase as your business grows, however this will be at a disproportionate amount. A lot of businesses see their stock holding growing slightly faster than that of sales and as a result they are placing much needed money into stock and paying undue amounts of tax on the growth portion of the stock holding.

Stock can be shifted down by bundling one item with another, focus on selling the stock via sales targets. Remember that a rep selling you stock gets paid more if they sell you more – they don't care if you need it or not, so be wary of reps with special deals, volume deals etc.

Cost of goods and expenses are easy to improve – it can often be a simple matter of asking for a better price; cutting out areas you don't really need to spend

money on. Go through your list of suppliers and ask each of them to reduce the price you are paying, this will be an interesting exercise for you.

Go through the large line items on your expense sheet and see how you can reduce each area.

During these changing economic times, your market is possibly shrinking – fewer people are looking to buy or people are looking to buy less. So it is important for you to look at expanding your market size. Most of your competitors will be shrinking their spend on marketing and sales and this will give them less of a shrinking pie and as such they will start to discount to try and increase revenue through volume sales. This factor is bad for them and good for you.

You need to be spending more on marketing (wisely) and more on sales but without the discounting and with more personal service. If you are unsure of how to do this then you need to get help from your business advisor as a matter of importance if you want to take advantage of the current situation. ●

■ Tony Gattari was previously the General Manager of the computers and communications division of Harvey Norman and oversaw the growth of this business from \$12 million to \$565 million in nine years. He is now founder and Chief Energy Officer of Achievers group. He is a professional speaker, business educator, author and business advisor.

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