dfk australia new zealand
LEADING ACCOUNTANTS AND BUSINESS ADVISERS

make your working capital work as hard as you do

Working capital represents the operating liquidity available to a business. The primary objective of working capital management involves managing cash, accounts receivable and payable, and inventories to ensure that sufficient cash is available to meet day to day cash requirements.

Poor working capital management can result in liquidity risk to a business. This means that the business might not be in a position to take advantage of opportunities as they arise but In a worst case scenario, it can cause the business to be in a position where it is unable to pay its debts as and when they fall due (trading insolvently).

Another objective of working capital management is to maximise profits.

Increasing cash flow will enable you to reduce the amount of working capital locked up in your business, allowing you to increase the net profit the business generates by either increasing income or decreasing expenses.

The four areas to manage include

1. Debtors Management
2. Creditors Management
3. Stock Management
4. Finance Management

On the next pages we provide our top tips for managing these areas of your business so that you can increase your net profit and free up cash so that you can use it to help your business grow.

Debtor Management Tips

Debtor Management is the easiest place to start looking for ways to improve your cash flow and working capital. Every dollar tied up in debtors is a dollar more on your overdraft costing you interest or just a dollar not available to do other things with.

Before the job:

1. Take the time to credit check new customers – saves you a lot of grief later.
2. Have good engagement processes – provide accurate quotes that detail the terms including the due date for payment.
3. Maintain a good spread of customers so that if one defaults it doesn't hurt too much.
4. Get deposits or payments up front – especially for projects that have high up front expenses.

During the Job:

5. Manage job turn-around times – the faster you do the job the faster they'll pay!
6. For service businesses that carry work in progress – issue progress invoices.

After the job:

7. Don't wait to send an invoice – instead of billing at the end of the month, bill as soon as the work or project is completed or when the stock leaves your business.
8. Format your invoices properly – have a specific due date for payment (not just "in 14 days").
9. Make it easy to get paid 24/7 – offer BPAY, EFTPOS, credit card, web–site facility.
10. Offer discounts to motivate customers to pay earlier.
11. Deposit the cash/cheques as soon as you get them – don't bank just once a week.
12. Don't wait for people to get around to paying you – call them as soon as the invoice is due.
13. Review your debtors list each week and chase them (have a pro-active system).
14. Don't wait forever to get paid – at least get regular instalments.
15. Settle customer disputes quickly – Unhappy customers often will not pay until they are satisfied. Customers vote with their $$$'s – if they are unhappy they will not pay and they may even leave.
16. Don't send aged statements as reminders – send letters of concern instead!

Creditor Management Tips

It is really important to keep your suppliers happy to protect your credit rating as well as ensure delivery of the materials & services you need to look after your customers.

1. Negotiate extended payment terms eg ask for 30 days instead of 14
2. Ask for bulk & volume discounts and rebates
3. Ask for discounts for early payment
4. Ask for Supplier support for advertising & marketing
5. Don’t pay them too early or too late!
6. Nurture strategic suppliers – these are the suppliers you need because of their particular products or the quality of the service they provide. Work out how to build a Win-Win relationship with them.
7. Seek competition for commodity suppliers – these are the suppliers where there is no difference in the products. You just need to find the supplier willing to give you the cheapest price.

Stock Management Tips

It’s usually unavoidable but it does cost money to have stock sitting on shelves. The costs include the cost of buying the stock that sits on the shelf, rent for the floor space, shelving to sit it on and insurance to cover it. There is also the risk that the stock will become out of date or out of fashion before you’ve had a chance to sell it and therefore won’t be sellable.

Stock Management strategies help you reduce these costs but make sure you consider your ideal customer experience:

1. **On the shelf or Just-In-Time** – work out whether your business and your customers need stock to be “on the shelf” ready to go instantly or whether you have enough notice (customers are prepared to wait) for you to get the stock in especially for them (“Just in Time”);
2. **Consider re-order periods** – if you do need something or have run out how long does it take to get more stock in. The longer it takes the more likely it is that you need a few extra sitting on the shelf just in case. If they are easy to get in then you probably don’t need those spares.
3. **Beware minimum re-order quantities** – How many do you have to buy in one go? Are there any discounts for buying more?
4. **Beware shipping/freight efficiencies** – compare costs of getting 1 item delivered versus more.

But don’t forget to make sure your shop looks good for customers ie well stocked. This is why some shops have mirror backed shelves – so it looks like there is twice as much as stock there!

Finance Tips

Making sure your business uses finance the correct way can minimise expenses such as interest and bank fees. It also helps to ensure that you have the cash flow to take advantage of opportunities as they arise.

1. **Use the right finance for right purpose eg don't buy property with an overdraft** – this ensures that you don't pay too much interest than otherwise necessary
2. **Match finance term to asset life eg 5 year lease for 5 year car use** – this ensures that you don't have to pay early payout out fees and makes sure that you are still paying for an asset that died years ago.
3. **Have finance ready before you need it**
    - the bank manager hates emergency overdraft requests!
    - Banks only lend money if you don't need it!
4. **Use secured finance to get lower interest rates** …BUT
5. **Get the right mix of secured and unsecured finance** eg you can use your home as security for a loan to buy a car but you can't use your car as security for your home loan!

For an open discussion about profitability and managing your working capital with a business specialist at your closest **DFK Australia New Zealand** office please contact us on **1300 335 269.**