

CHRISTMAS

# No need for cashflow crisis

By JOANNA TOVIA

**C**HRISTMAS is supposed to be a time to be merry but if a business is strapped for cash, business owners can feel far from festive.

Although the dollars come rolling in for many retailers around Christmas time, about 86 per cent of small businesses will still experience a cashflow crunch, according to the National Australia Bank.

NAB's Bruce Munro says the perception of business being robust over the Christmas season is true only for a small percentage of businesses.

And those business who do experience a boom before Christmas have to prepare for a bust soon afterwards as invoices are slow to be paid while business expenses continue to be incurred.

Some businesses miss out all together.

Wayne Burgan, head of book-keeping program company Cashflow Manager says for a large proportion of small businesses, the Christmas/New Year season is a traditional cashflow drought.

"Cashflow dries up and staff are on leave, meaning the business can come to a virtual standstill.

"However, as the business owner still has regular bills to pay, this can place enormous pressure on accounts."

Mr Burgan says a lack of urgency among some business owners regarding their own invoicing becomes a major source of the financial pressure.

"A lot of businesses put their heads in the sand and do not issue invoices or follow up when an invoice becomes due, especially around Christmas and New Year," he says.

But he says this can exacerbate

the tight cashflow problems particularly because debtors can be harder to contact at this time of year.

Fortunately, there are some strategies to tackle the problem.

Mr Burgan said it often pays for business owners to be innovative in seeking ways to smooth out their cashflow.

Offering incentives such as discounts for invoices paid before the end of the year can help.

According to Birch Consulting Group head Cherry Birch, the two main areas in which most businesses tie up cash are receivables (the money owed by customers) and inventories or stock.

"You need both to run a successful business but money tied up in these areas can be dead money since it is not working for you, and so can seriously affect your growth, profitability and even survival prospects," says Ms Birch.

Invoicing promptly and quickly clearing any disputed items on invoices can ease a cashflow crisis.

"How many times have your customers used a query on a small part of the invoice as an excuse to delay payment on the whole amount?"

"Ask them if they are in agreement with the rest of the invoice and get them to pay the non disputed amount while you investigate their query," Ms Birch suggests.

Chasing outstanding invoices may be unpleasant but it is essential.

"Good customer relationships can play a big part but for the slow payers you may need to be persistent," she says.

"If your client has cash flow problems they will pay the noisiest first."

For those businesses holding

obsolete inventories, Ms Birch suggests clearing out the excess stock to free up space.

NAB's Mr Munro says more business owners are planning ahead and implementing strategies to ease the cash flow burden, with cash flow (or debtor) financing becoming increasingly popular.

Debtor financing traditionally gives SMEs access to the value of their unpaid invoices, providing the business flexibility to grow or to smooth out seasonal cash flow issues.

Financing is also available for those who want to take advantage of stock offloaded at discount prices over Christmas.

New on the lending market is an offering from Provident Inventory Finance.

Provident is the first in Australia to introduce inventory finance, where businesses can now buy stock without the need for real estate equity or the pre-sale of stock.

"If the reason businesses are getting rid of the stock is because they don't have enough working capital to hold that level of stock, then inventory finance can help."

Mr Nolan says it is times like these that suppliers need to discount heavily to keep afloat.

"That means bargains for business," he says. "Businesses can haggle a good deal right now."

Popular in the US and UK for the past 50 years, inventory finance allows companies to buy up stock and make the most of the cheaper prices.

Provident lends up to 90 per cent of a supplier's invoice, including GST. Business owners retain ownership of the stock and can use or sell it as normal.

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