KEEP THE CASH FLOWING

A guide to improving cash flow in your business

Westpac Cash flow guide November 2024

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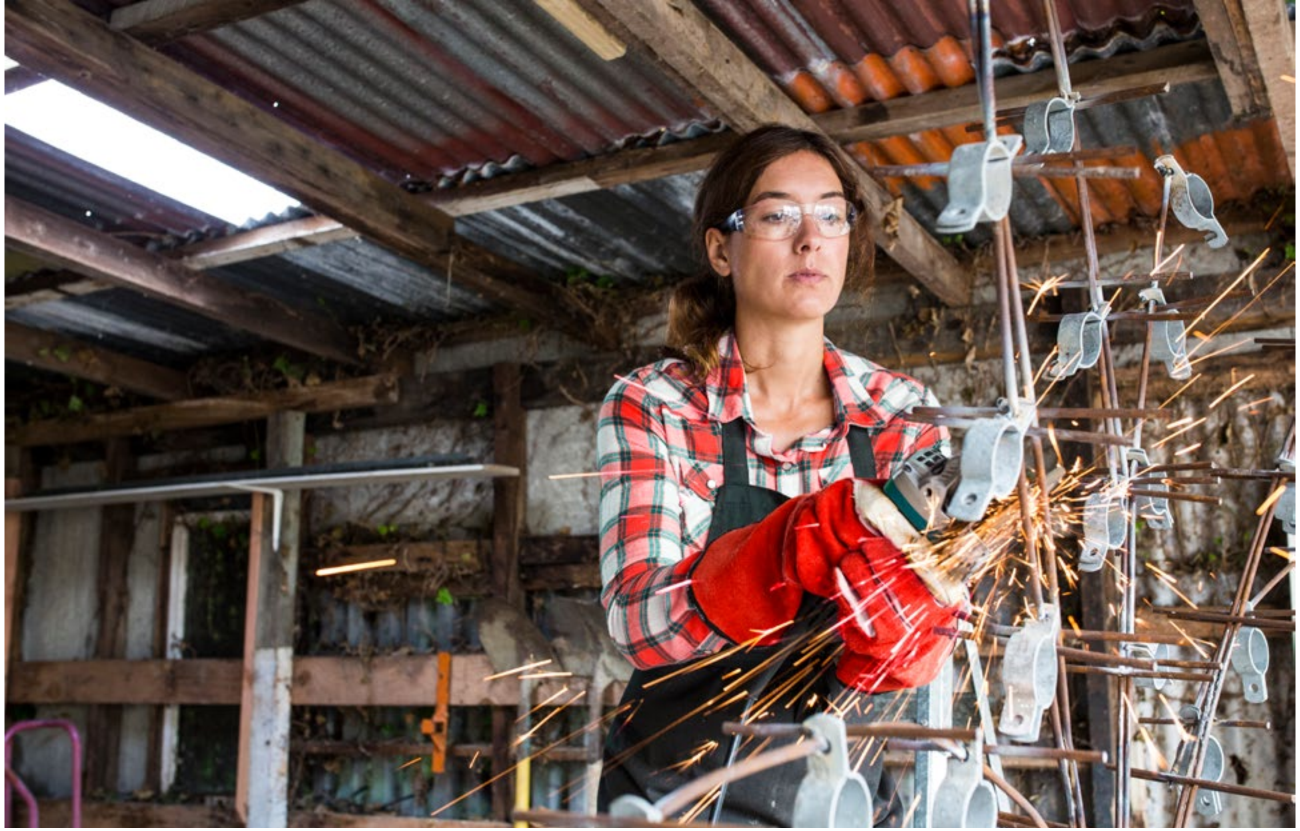
WHERE'S YOUR CASH GOING?



Cash flow is the money coming in and out of your business – having more cash on hand helps the business thrive and grow.

Healthy cash flow is vital to any successful business. When the cash is flowing, you'll thrive. Run out of cash though, and you may struggle.

Cash flow is a constant worry for owners of small-to-medium-sized businesses, and problems with cash flow can be the biggest obstacle for survival and growth.

Improve your cash flow and your business will be in better shape – that's why we've created this guide to provide you with some tips and insights into successful cash flow management.

95% Of small businesses in New Zealand experienced at least one month of negative cash flow in 2021.[1]

CASH FLOW CAN BE CATEGORISED INTO THREE TYPES

1. CASH IN

Cash going into your business includes:

- Money from sales, including cash, credit card or direct payments
- Interest on savings or returns from investments
- Loans from the bank or investors.

2. CASH ON HAND

The total amount of cash you can access within your business.

3. CASH OUT

Cash going out of your business includes:

- Costs like rent, electricity and phone bills
- Wages and taxes
- Paying for inventory and supplies
- Debt repayment.

1. Positive cash flow

More cash is coming in than going out, giving you more money to spend, invest or save.

2. Neutral cash flow

Cash coming in equals cash going out. You're covering all costs but without extra funds left over.

3. Negative cash flow

More cash is going out than coming in. This can happen temporarily, even in successful businesses, and may be covered by loans or owner contributions. However, long-term negative cash flow may signal the need for adjustments.

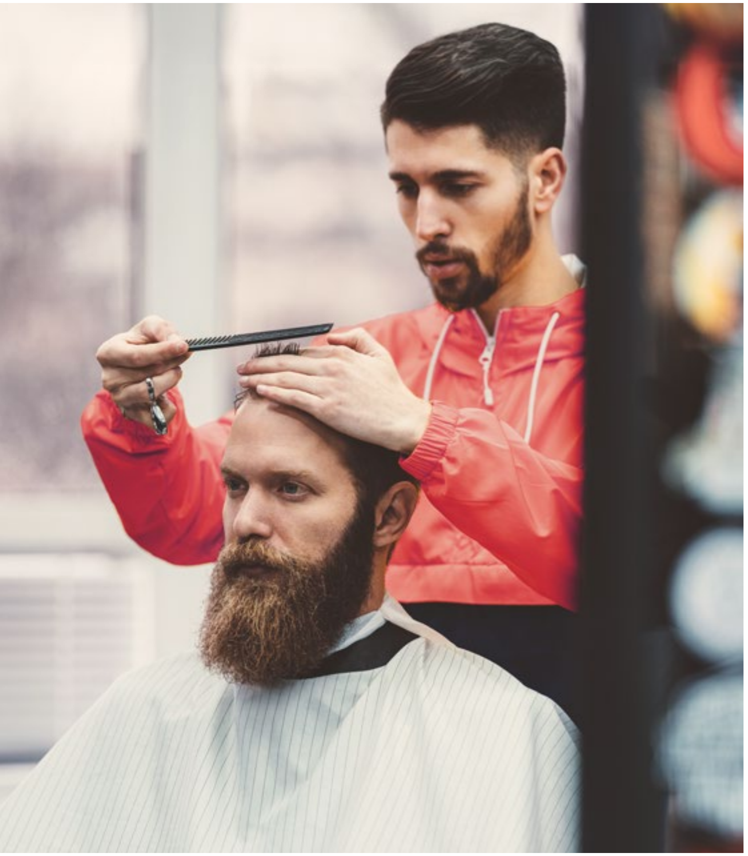
How to assess your cash flow

The easiest ways to assess your cash flow are:

- Ask your accountant, and,
- Check your online accounting platform, such as Xero, which will give you an instant cash summary.

WHAT CAUSES CASH FLOW PROBLEMS?

Common reasons for negative cash flow are:



Low inventory turnover

When products sit on the shelves, they tie up cash until they're sold. Too much unsold inventory can lead to cash shortages.

Rapid growth

Fast growth often means more inventory, bigger invoices, and sometimes new employees. This puts extra pressure on cash flow – often described as 'growing pains'.

Unbilled work in progress

Some projects can't be billed until finished so costs add up while you're waiting weeks or even months to get paid.

Unexpected costs

Unplanned expenses like inflation and maintenance, can strain cash, even with good planning.

Lumpy income

when sales have taken a hit. For example, January and February are often slow for small businesses, while hospitality may struggle in winter.

Slow payers

When clients pay late, your business can quickly run out of cash. You might be owed a lot and still can't cover bills. Relying on a few big clients or clients from the same industry can make this worse.

Overlooked taxes

Every company needs to pay tax to a predictable schedule. Every business needs to set aside cash for taxes. But when cash is tight, it's can be tempting to use that money and be caught short when a tax bill is due.

SEVEN WAYS TO IMPROVE YOUR CASH FLOW

1 Change your payment terms

Adjust your payment terms to get paid faster. Instead of billing at job completion, consider setting payment milestones throughout. Or change your due dates from the 20th of the following month to 7 days after invoicing. Using e-invoicing can also help reduce the risk of costly invoice fraud.

2 Offer a range of payment methods

Make it easy for your customers to pay you – offer a range of multiple secure payment options, such as credit cards, bank transfers, online payments, and mobile payment solutions.

3 Have processes to help you get paid on time

Establish a formal process for following up on invoices to reduce late payments. Set up automated invoice reminders, consider adding late payment fees and have a consistent timeframe for follow up calls.

4 Set aside tax money

Be prepared for tax obligations by saving enough money to cover them. Consult your accountant for guidelines on what percentage of sales or profits to retain.

5 Increase your prices

Are your prices too low? Check out what competitors charge – you might be able to raise the price of some products or services.

6 Shop around for lower-cost suppliers

Could you be paying less for products, services and/or utilities? Review your suppliers and look for lower-cost alternatives.

7 Use cash flow statements and forecasts

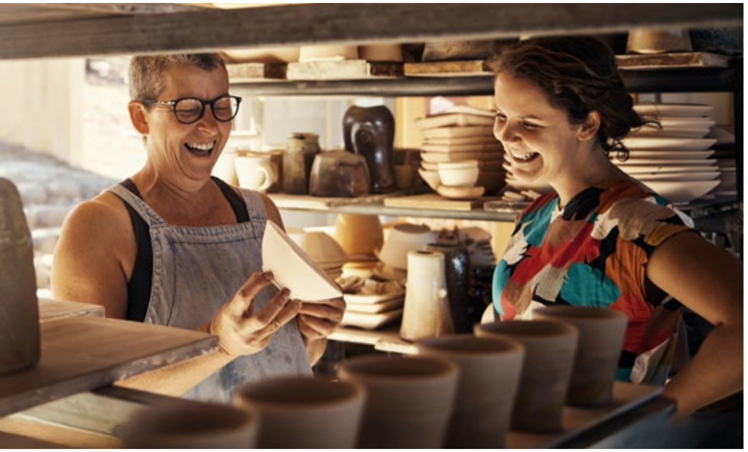
Track your cash flow history and create forecasts to plan ahead. This helps you anticipate potential shortfalls and ensures you're prepared for future financial needs.

$456 million estimated cost of late payments to small businesses in New Zealand.[1]

THE POWER OF FORECASTING

Managing your cash flow effectively makes your business more resilient and stable.

By planning, tracking and monitoring your cash flow, you can make more informed decisions. One important way to do this is by using cash flow reporting and forecasting.



Cash flow reporting

lets you look back and see what typically happens with cash in your business. You can spot seasonal trends and patterns, which makes your forecasting more accurate.

Cash flow forecasting

Shows how much money your business is likely to have in future – a week, a month or even a year from now. It projects your likely income and outgoings across a period. Having a forecast helps you spot potential crunch points and plan ahead for them. This can make your business less stressful to run and gives you more time to focus on more important things. It can also save you money, giving you time to organise your money so you're less likely to need a new loan or overdraft.

You can create your cash flow forecast using a spreadsheet (we offer a downloadable template on our website), or by using your accounting software. However, the best option is to ask your accountant to work with you on a forecast, because their expertise will make the process easier and more accurate.

Download our cash flow forecasting template from Business Base.[2]

1 Source: Xero's two-part 2022 report Crunch: Cash flow challenges facing small businesses

2 These tools are intended as a guide only and are not intended to constitute financial advice.

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20% Lower revenue in January and February
compared to other months, for small New Zealand businesses.[1]

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