10 Cash Flow Strategies for a Successful Business

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Strategy 1: Get your pricing right

Determining the price to charge for a product is frustrating for most businesses. However, getting your pricing strategy right is critical to your success in business because it affects many areas of your business. The pricing strategy impacts the type of customers attracted to your business, the quantity of product sold, how the product is perceived, product promotion and your profit.

There is no single way of determining the best pricing strategy for your business. The following is a list of factors that you may consider when developing your pricing strategy:

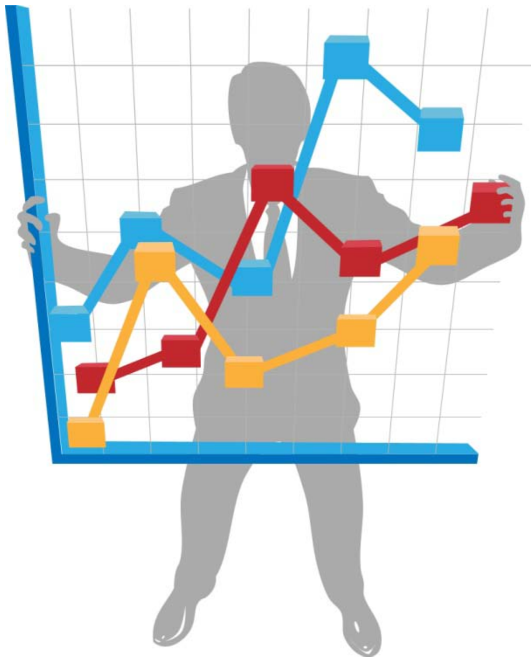
- The type of customers you are targeting.
- The positioning of your products in the market.
- The relationship between the price and quantity sold.
- How you will promote your products.
- How you will distribute your products.
- The costs associated with your products including the fixed and variable costs.
- Your competitors and their pricing decisions.
- The objective of your pricing strategy.
- The method of calculating price.

Review and test your pricing regularly. Be willing to test the market and adjust your pricing strategy to maximise your cash flow.

Case Study

One of my clients bought a pallet of soft drink at a large discount and passed the discount onto to his clients. The stock barely moved. He lifted his price by 10 cents and the soft drink flew out the door. By testing his market and adjusting the price he was able to maximise his revenue.

Strategy 2: Reduce your cost of goods sold



This strategy complements the first strategy 'get your pricing right'. The gross profit margin is the difference between the price you sell your product for and the price you paid for it. Increasing the margin between the two will increase your profit and your cash flow. There are two ways to increase your gross profit margin: increase your price (as discussed in strategy 1) and/or decrease the cost of goods sold. The cost of goods sold is the cost of the product to you that was sold to your customers.

Examples of ways to reduce your costs of goods sold:

- Negotiate with your suppliers for a better price if you buy in bulk. Only use this strategy if you can turn over the stock quickly.
- Negotiate with your suppliers for a discount if you pay early if there isn't a discount already in place.
- Shop around with other suppliers to ensure you are getting the best value (this is not necessarily the best price).
- Purchase new equipment or implement new processes to produce the goods more efficiently.

Strategy 3: Control your expenses

Regularly review your expenses by comparing them against your budget and prior periods. If an expense is greater than budgeted or than the previous year then investigate the reason for the increase.

Examples of how to control your expenses:

- Compare expenses against your budget.
- Compare expenses against the previous year or period.
- Compare expenses as a percentage of sales.
- Train your employees to be thinking about how expenses can be reduced. Reward them for ideas that reduce expenses. Rewards don't have to always be monetary. Be creative with the reward system.
- Review the transaction listing to understand each expense.
- Prepare regular financial reports.
- Require quotes from various suppliers.
- Rearrange annual payments into small payments. This generally costs more and should only be used when needed. Revert back to annual payments once you are able.
- Implement performance measures to monitor your expenses. For example, measure the costs of vehicles on a cents per kilometre basis.

Caution: Before reducing expenses ensure you are not reducing your competitive advantage as a business. For example, if customer service is your competitive advantage, reducing a sales person may cause that advantage to be lost.

Strategy 4: Manage your debtors

A sale isn't a sale until the money is in the bank. A well managed debtors system is critical for a successful business. Ensure your debtors system has preventative measures as well as a step by step plan to recover overdue accounts.

Some examples of how to improve the debtors system:

- Credit checks for all new customers.
- Receiving deposits on signing of contract.
- Discounts offered for early payment.
- Make it as easy to pay as possible. Offer to take credit card details to move the risk to the credit card company.
- Send out invoices immediately.
- Bank regularly.
- Regularly review aged receivable report and consistently follow a step by step plan to follow up overdue accounts.
- If the customer cannot pay the whole amount, be flexible and arrange a payment plan. Take the first payment straight away while on the phone by asking them to pay by credit card.

Strategy 5: Manage the stock

Controlling how much stock is on hand can be both an art and a science. Not enough stock will lead to lost revenue. Too much stock can impact on cash flow. I have seen how both can have a major impact on profit and cash flow. For example, a retailer increased the amount of stock on hand and sales increased dramatically when customers saw the availability of products. This is more the exception than the norm. Generally, businesses have too much stock that is tying up valuable resources. One possible reason is that the owner doesn't want to realise a loss on the sale of the stock. However, they have not considered the hidden costs by holding onto old stock such as missed opportunities due to poor cash flow and shelf space that could be used by a fast moving product. Knowing what the right stock level for your business may require some trial and error. However, with a good accounting program you will be able to make an educated guess about how much stock to carry.

Examples of how to improve stock control:

- Monitor stock regularly. Use ratios such as inventory turnover and days inventory to compare to previous periods and industry standards.
- Clear old and outdated stock by packaging together or discounting.
- Don't buy too much stock even if a discount is offered if it will take an extended time to sell.
- Conversely, for fast moving stock, buy in bulk to receive a discount.
- Focus on a 'just in time' ordering system to save build up of stock.
- Set minimum and maximum levels of stock and stay within these levels.

Strategy 6: Don't pay too much or too early

Ensure you have a step by step purchasing procedure that is followed and monitored. Lack of proper procedures and monitoring may lead to purchasing too much, paying for undelivered goods or overpayments. For example, it is common for payments to be made on a statement and yet not have an invoice to verify the purchase. In my experience this can be the cause of overpayments.

Examples of how to improve purchasing and creditor payments include:

- A purchase order system that has two signatures for accountability.
- A system for requesting quotes for new products or for previously purchased products every six months.
- A procedure for receiving goods.
- A procedure for payment of goods that requires the purchase order, delivery docket, invoice and statement. The level of paperwork required may vary depending on the size of your business.
- Always pay your creditors on the day the invoice is due. Do not pay early or late.
- Negotiate longer payment terms or a payment plan if the business is struggling.
- Negotiate discount for early or up-front payment.