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5 tips to improve your business bank balance

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5 TIPS TO IMPROVE YOUR BUSINESS BANK BALANCE

The magic ingredient to help your business grow is the capital to support your growth. Obviously every business strives to have some cash in their account, but between late paying customers, poor processes, admin bottlenecks and cash flow problems, having the cash on hand feels like chasing the pot of gold at the end of a rainbow.

Purchasing new technology to improve processes, new machinery that's desperately needed or even a new van to reduce delivery costs are great goals, but without that much needed capital it will remain a pipedream. This leaves your business in limbo, doing well, but not well enough to grow any further.

Getting access to credit remains difficult to attain. Most lenders want to see a healthy cash flow. Maintaining that cash on hand is also a great backup, in case your requests for funding are unsuccessful.

At its most basic form, the term 'cash flow' refers to delaying outgoing costs long enough to ensure you have enough incoming revenue to pay for them as well as leave a bit for profit, while making sure that your invoices are being paid promptly. It's your profit that builds up your capital to invest in growing your business, which is easier said than done as many businesses have to provide their services long before they receive any income from the work they've done.

Let's look at a plumber. He gets a call to replace a hot water system for a new customer. He goes out on site, removes the old system before going to the local plumbing supply centre, picks up a new system by paying upfront and goes back to install the system. The hot water system cost him \$600. His total bill including labor was \$1100. He leaves the customer a hand-written invoice asking for payment within 7 days and leaves. After 7 days the invoice is still outstanding. Every day that goes by with the invoice remaining unpaid is eating away his cash flow while he continues to take on new work. After a while things become critical and he no longer has the capital to even take on new work as he's owed so much.

If cash flow has such an impact on a smaller business it can have an even more painful impact on growing businesses. Start adding in commitments of payroll, GST liabilities, compliance and legislative requirements, and there are payments that simply cannot be missed. Thankfully there are some great tips for mid-sized businesses to help improve their cash flow and increase their capital, giving them the funds and stability to grow:

1. Get paid faster

It seems like such a simple tip, but it's one of the most overlooked areas within a business, and has the greatest impact on your cash flow.

We'd all love to be paid instantly after completing a service or delivering a product - which seems to be impossible. The best thing to do is to reduce the amount of time it takes to get paid drastically. Running daily debtor reports, having the right processes and systems in place to run automatic debt recovery letters (commonly referred to as dunning) and invoicing customers promptly are the most important changes to make.

If you're not sending invoices out instantly or at least at the same day, you should fix that. Nevertheless a common practice in a lot of industries is to 'batch' invoice every few days, which is slowing down your cash flow, reducing your profit and stunting your growth. Put it this way: Every minute that goes by an invoice hasn't been sent to a customer is costing you money. Get your invoicing process under control to improve your business bank balance and to take the dunning burden off yourself and/or your staff.

This can be simplified by integrating a business management system, which gives you the ability to invoice instantly and to convert orders or quotes into invoices at the click of a button. Dashboards showing aged debts ensure that you not only know who owes you what but when it was owed.

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An ageing schedule for example shows all the debtors and lists all the debts that are outstanding, so that you can easily track what's outstanding and even get the system to send out dunning letters automatically.

However there are some other ways to help to reduce the time it takes to get paid:

- > Offer discounts to customers who pay their bills rapidly
- > Take stage payments throughout projects or jobs to ease cash flow
- > Require credit checks on all new noncash customers
- > Track accounts receivable to identify and avoid slow-paying customers. Instituting a policy of cash on delivery (c.o.d.) is an alternative to refusing to do business with slow-paying customers.

2. Accurate pricing, discounts, quotes and invoices

Getting invoices out on time and following up on them to get paid in a timely manner only works if the invoice was correct in the first place.

Inaccurate invoices are typically the result of manual data entry and the use of disparate systems: the more people involved in the processes that manually enter data into multiple systems, the higher the risk of mistakes or clerical errors. Take a project manager as an example, taking instructions onsite, scribbling them down on bits of paper, passing them onto administration staff to decipher, who then manually re-type the information their computer system to generate a quote.

An integrated business management system, would allow the project manager to generate a quote on site, which he'd send to the administration team to approve who'd then generate the invoice for the client. Pricing and quoting policies can be set in the system and can be printed onto quotes or invoices, so that customers get the terms & conditions in writing. An automated process also removes the risk of quoting incorrectly and means that once a quote becomes an invoice, it'll be free of errors.

3. Reduce stock on hand

If you hold stock, you are typically in one of two camps: Those that operate with lean stock but often run out of stock or those that carry lots of stock, but tie up all their capital. There is a middle ground but without the right inventory system in place it can be hard to achieve.

Simple things like setting minimum/maximum stock levels and automatic re-ordering, knowing what sales are coming up, what trends or seasonality changes you need to consider and how they affect your business or even knowing the latest exchange rates can help you to make better purchasing decisions.

The problem for most businesses seems to be the visibility into their stock. Take a retail business consisting of four outlets, a head office and a warehouse as an example: Typically each site will have its own accounting and stock control software and none of them will be connected to one another. As a manager you'd rely on each location providing a stock report after closing off each month's financials and use this information to find out what stock is available at which location to figure out what to re-order.

With an integrated business solution, head office would be able to look into stock levels and movements at each location. They'd be able to see if a particular stock item was running low at any point in time, so enough stock was always on hand. They'd be able to identify the best sellers and the flops and adjust their orders accordingly. This information, combined with the lead-in time for new stock orders, can then be used to set minimum and maximum stock levels.

Automating the re-ordering process not only speeds things up and reduces administration bottlenecks, but also allows the business to order the right items / quantities – freeing up capital that can be invested back into the business to support its growth.

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4. Sales & Marketing

Sales are the lifeblood of any business: If sales stop, so does revenue & income. How businesses go about generating new sales however can vary greatly by industry and sector and there are a range of commonalities that can be improved.

> Understanding your market

You may have been in business for 6 months, or 60 years, knowing your target market is crucial to be able to position your products or services appropriately to the right audience. Unfortunately there is no 'one-size-fits-all' solution and you need to look at what which customers order from you, when they order and if there are any common traits, like demographics, firmographics, value of orders, repeat orders etc. Once you can pinpoint your 'common customer(s)' you can then cluster your customer base and figure out how to best sell to – and communicate with them.

> Sales Processes

Are most successful sales people allergic to paperwork? It appears that the answer is 'yes', as quite often the ones best at sales are the worst at paperwork. So far so good but why would sales people need to be 'paperwork advocates'?

If your salespeople are spending more time completing order forms instead of looking for new opportunities and nurturing your existing clients to make sure the orders keep on coming in you need to fix this process.

One change that can have a huge impact on your sales processes and the performance of your sales force is the implementation of a CRM (Customer Relationship Management) system as part of a business management solution.

Relevant data is stored in one centralized location, making it readily accessible to all members of an organization, which enables sales people to more easily communicate with and market to their customers.

They can pull real-time information at any given point in time, whether they're on the road or at the office. They can check stock levels, pricing or individual discounts at a fingertip and orders can be processed quickly and simply. There is no need for extensive data entry as the system only needs to be updated with the most relevant information, giving salespeople more time to do what they are actually paid to do: namely, sell to prospects.

> Marketing

So, you know your target market and who you market to, your sales processes are refined and you've reduced the burden of time consuming administration. What now?

How about putting your focus on Marketing?

Getting 'new' clients is as important as maintaining existing clients. Now you know who buys from you, you can also find out where those customers look at to find information to make their decisions. They could be looking for information in trade magazines, read referrals or reviews, check out social media pages or gather information about your products & services by surfing the web, reading newsletters or comparing email offers. The secret is to pick the channels or platforms that result in the best return on investment. Combine with the greatest reach to your target market and you'll be on the road to success.

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5 REASONS WHY BUSINESSES STOP GROWING

5. Reduce costs and overheads

With changes to economic conditions, fluctuations in sales, a boom in online sales and customers finding new ways to source products or services, it's become more necessary than ever to become more profitable to survive. The most common, but also most difficult way of doing this is reducing operating costs and overheads.

Consider the tips below and you'll find that you can save time and money fairly easily.

> Outsourcing your IT or Administration

Outsourcing is a great way to keep your costs down either whilst growing or when you need to reduce some overheads. Maintaining servers, peripherals and keeping everything running in-house can be costly. Outsourcing your IT helps reduce upfront costs as well as ongoing support and maintenance. The same goes for administration work and/or laborious tasks that can be outsourced.

> Negotiate supplier contracts

If you currently order stock from multiple suppliers, you might want to consider locking into appointing one supplier instead. They will benefit from fixed costs and higher volumes and you will benefit from lower costs and easier to manage relationships.

> Be disciplined in budgeting and forecasting

If you want your budget to really work for you, it needs to be accurate and you have to be realistic and disciplined when planning for the year ahead. Make sure that you know what you have to pay when and review your key numbers regularly so that you can spot trends, opportunities or risks.

Be realistic about spendings, allocate appropriate resources to projects, monitor performance, improve decision-making, identify problems before they occur – and meet your objectives.

Make sure you consider enough information for you to easily monitor the key drivers of your business and communicate relevant information to your staff to get their commitment.

> Invest in systems to reduce costs

Everyone's heard 'you have to spend money to make money' and that can be true as long as you can see a measurable return on investment. Implementing a business management solution often brings planned cost savings from better visibility, reduced administration time, savings from stock management improvements, increased time billing and many more areas. One area that typically benefits from the greatest cost saving is administration. Often the number of staff required could be reduced by automating simple admin tasks, freeing them up to help in other areas of the business.

There are many ways to increase your business bank balance. As highlighted above some can be implemented straight away, others require the implementation of software or a process change. The ability to increase the amount of funds on hand to help support growth is what will separate your business from your competitors.

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