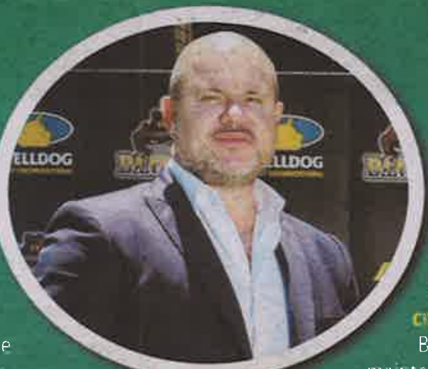
# Cashflow is key to success

**Business is flying into economic headwinds. Global markets are affecting the way Territory business operates. Australian Financial Advisers managing director Paul Betti has seen it before and has these tips for locals**



I was flying back from Hong Kong recently having attended a conference, it was Sunday night, a big weekend with the Hong Kong Sevens and Asian investors looking at opportunities in Australia.

It was a busy week just gone and one ahead, so I took the opportunity of an upgrade using my flyer points.

The snacks being served were pretzels which included three peanuts, not cashews.

Then I thought five years ago it was cashews.

Qantas, a national icon only a few years ago, on the brink of potentially going broke if changes weren't brought about. The CEO Alan Joyce had some big decisions to make in order to survive.

Joyce would not liked for what he was about to do and many wanted him to fall on his sword if it went wrong.

For starters, no more cashews, more pretzels, customers don't mind these little changes or notice them. But 5000 redundancies, well that's closer to home for many.

On the same flight, in the business section of the *Weekend Australian* Rio Tinto announces that they intend to extend their creditor terms from 45 days to 90, in June 2015, it was increased from 30 to 45 days.

We are experiencing those tough times and we, like the CEO of Qantas and Rio Tinto, have to make those hard decisions too if we are to keep our businesses alive.

When the economy starts showing potential signs of slowing down, the first thing that happens is your expenses generally stay constant and turn over comes down because your customers stop spending affecting your bottom line or profitability.

Lets imagine the jaws of a crocodile. Bottom jaw is expenses.

Top jaw is income. The gap between the two represents your profit. And it is starting to close.

What are the things we need to do to keep the jaws open?

The key to everything is cashflow management.

**1. Review your Debt position and credit terms with your bank/creditors:**

Banks are prepared to maintain market share and will happily work with you to assist with better cashflow management and debt restructure during hard times.

When you owe a small amount of money to a bank, it's your problem, when everyone is doing it tough and all little amounts become one big amount, everything that is owed becomes the bank's problem. For new business, banks can be harder, for existing customers, they are often more flexible. Consider Interest rates and loan term structures in particular.

Interest only versus paying principle and interest. Frees up cashflow to meet other short term obligations. Increase term of loans in order to reduce payments helps.

**2. Establish new credit terms with your suppliers, 30 days to 45 days and in extreme cases beyond as in Rio Tinto**

**3. Staffing:**

Your people in your business are your key assets. For many owners, we build our businesses around our people. Keeping people informed of what is happening is important. They need certainty also.

Team meetings asking them of what they believe can be done while things are tough will spur new ideas 'collective wisdom of the crow theory' as well as loyalty and commitment.

Get 'buy in' first on ways to cut back expenses, freeze wages, defer bonuses, last resort is letting staff go. Your staff will work with you during hard times because they have a vested interest in the business to survive. And you pay them back in good times.

**4. Meet with your accountant and establish a regular framework on managing your financial and strategic position during these times.**

A good accountant will continue to do what is expected, a great accountant will actively advise in ways to help reduce expenses and grow your business.

Your financial adviser should also play an integral role in providing proactive support to you and your accountant.

**5. Review insurance schedules and premiums.**

Talk to your broker about premium funding options where necessary as opposed to paying in one hit. If its survival of the business, be sure to keep the core insurance and accept that a great level of risk may be required.

**6. Budgets: review the budget based on the worst scenario and assume a minimum 12 month cycle, any more than that is too hard to foresee.**

Redo the budget again in 12 months where necessary. You will have seen 12 months under you belt and will be able to make decisions based on experience rather than hope.

Remember your competition is those doing the same as you and how you spend your money is the difference between you and them.

Cut back on everything that is truly non essential. Travel, new cars, entertainment, new staff.

**7. Marketing**

One of the greatest expenses that must be maintained. People are still going to look to the services you offer. If you don't advertise you wont get new customers.

If the opposition cuts back on advertising, and you maintain yours, customers will come to you.

Embrace new and different ways to market your business. Social media is among the cheapest and newest and can be targeted directly to you customers.

Remember, customers are loyal, money is what you pay, service is what you get, price is only an issue in the absence of value.

Value your customers and they will remain loyal.

Remember, focus on the core strengths of what it was that made your business successful in the first place.

Remember a slowing economy is an interruption to normality.

It is not a disruption and everything is cyclic, it is a matter of time where confidence turns, consumers are prepared to spend and so the cycle starts all over again.