

COACHING RESOURCES

CASH FLOW

As a coach it is key to impart information to clients that help them to understand the basics around managing the financial aspects of their business to ensure sustainability and profitability in both the short term but also the long term as well.

What this session will cover today is to basically give you an insight into one of the most important elements of running a business and that is cash flow management.

We will cover:

WHAT cash flow is and what it means

WHY it is so important to manage and understand what cash flow is and the impact it can have on your business.

HOW you can control and improve the flow of cash in your business and increase your chances of success.

When I had my business I didn't know or understand the money side of business and it took 5 years before I managed to sit down and work it all out. 5 years wasted because I didn't know what I should have known. I only wish I had known then what I know now as I am sure I not only would be financially better off but my business would have been able to reach its potential much sooner. Learning the basics about finance in your business is fundamental and a must for every

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business owner no matter what stage they are at in their business. It is not the bookkeeper's responsibility nor is it the accountant's job to know and fix up your business, this responsibility lies definitely with you. So this session is not about teaching you to be an accountant this is just about creating a higher level of awareness around the importance of your numbers, what they mean and how you can understand and use them to your advantage to manage your money flow better, reduce the pressure and stress placed on you and pay yourself, your people and your suppliers in a structured simple process.

So let's start with What is cash flow?

I am going to start with some breathing exercises as this is the best analogy that I can share with you so hopefully you will understand how it works and this may serve as a reminder when you are struggling with balancing your cash flow. Let's start by taking some deep breaths in and deep breaths out just a few to get things started. When my business is running ok it feels a bit like this. Now lets exhale big and small breaths in, let's do a few of those so this is what it feels like when we are spending more that we are earning, and very shortly you are going to run out of breath you heart is going to beat faster and you will feel stressed and probably turn a shade of blue. Now before that happens let's take big breaths in and small breaths out yes see how that feels, well that's how we want our business to feel to, plenty of oxygen in the lungs and a bit in reserve if we need it just in case anything happens.

So why is it so hard to get it right, well there are a number of very good reasons this happens in most businesses.

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HERE ARE JUST A FEW REASONS WHY:

- Not enough money coming in ie lack of sales/ revenue
- Not enough margin allocated and no profit being realised in the business
- The cost of goods and services are higher than predicted
- The expenses to run the business are top-heavy
- Bills are accumulating over a longer period and are large sums to be paid out
- Tax, superannuation, and BAS payments are crippling the business when due.
- Materials need to be paid for way before any payments are received from the job

So here you are able to see that there are many traps for business owners to fall into if they are not managing their cash flow and numbers in their business

So let's understand why it is so important to get this right in your business

Fact - Cash flow is the 3rd biggest killer of businesses, why well mainly because business owners do not know how to manage it and they simply do not understand the basic fundamentals of managing money in business. They overspend and fail to pay and they don't know how to plan, provision, and budget to manage the operation of their business finances.

THE 3 MOST COMMON ISSUES THAT SEEM TO CATCH OUT MOST SMALL BUSINESS OPERATORS ARE:

- Outlying for materials and labour before payments for the work is completed
- Overheads too high for the size of the business to cope with
- Paying the ATO Superannuation and suppliers on time (Debt build up)
- Paying yourself a wage and the business making a profit.

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Ok finally let's look at how we can control this better and improve our overall cash flow situation. There are a number of FREE ready available tools to help you understand cash flow and can help you control it and put some easy steps in place to manage it into the future.

THE FOLLOWING THREE STEPS ARE THE EASIEST AND WILL GET YOU OFF TO A GREAT START.

1. Bank Statements - Use your monthly business bank statements as a tool to see where the money is flowing in and out. Really get to know what is coming in when and from where and do the same with what is going out and get familiar with how this all works. This is honestly the best place to start as most of what you need to know is right there in front of you. There will be a summary at the bottom of the page which will show you incomings and outgoings, this will help you see instantly if there is a problem or not. One thing to keep in mind is that this is just a snapshot, it's not the full picture.
2. The second great tool to use is the cash flow spreadsheet on the ATO [business.gov.au](https://business.gov.au/finance/accounting/how-to-set-up-a-cash-flow-statement) webpage <https://business.gov.au/finance/accounting/how-to-set-up-a-cash-flow-statement> this is a downloadable spreadsheet that will help you plan and budget month to month to make sure that you can easily see what you should be doing each month in order for this to work really well. It's easy to use all the formulas that have been created for you and all you need to do is fill in your numbers. You can look at what you did last month and compare to see what you think you should be doing this year / month in order to be on track or on target for what you want the business to achieve. Again this is another snapshot to help you see what should be happening in the business and can be a good measure to not only control cash flow but measure your performance too.

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3. Last one is to structure your payment terms so they assist you in managing your cash flow. If you are tied to 90 day payment terms then make sure you can live within your means and make this work in the business without too much of a rollercoaster ride every month. Also schedule weekly and monthly payments towards those payments then tend to drain the business and cause a hemorrhage every few months that you feel has drained every last drop out of the business. Areas such as BAS and Superannuation payments, insurances, rego's, rates, rent and maintenance to mention a few. It's so important to get the balance right and be prepared as in business we never know what's round the corner that will surprise us.

SO IN SUMMARY CASH FLOW:

- Understand what it is and how it impacts your business day to day month to month.
- Get clear on the basic numbers for the income and outgoings needed for the business
- Use the tools available to you to become more aware and know what is going on
- Look at your bank statement weekly monthly to see the patterns and flow
- Plan a schedule and map out a budget with the spreadsheet attached link
- Schedule payments to avoid the rollercoaster ride and gain more control of the finances

If you need further assistance please contact your coach and discuss options with them.