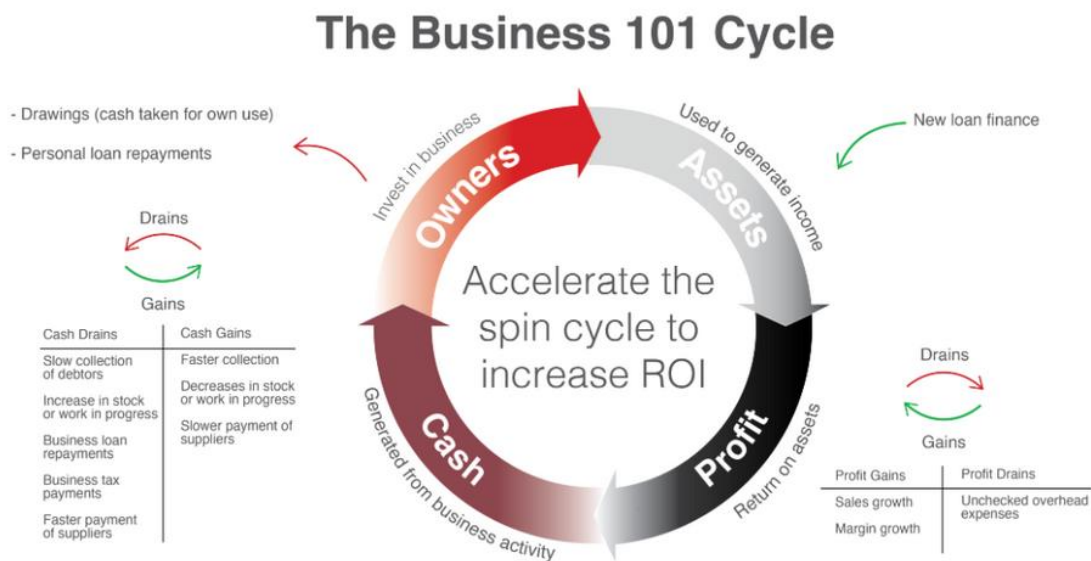


## Cash – the lifeblood of any business

Cashflow planning is best practice in any business and is critical to survival and growth. It is not uncommon for profitable businesses to close their doors due to poor cashflow management.

Cashflow freedom means your business delivers sufficient cash for you to live your desired lifestyle. In turbulent times, this can feel increasingly unattainable, but there are many things you can take control of to increase the odds.

In order to take control of your cashflow, you should understand the difference between profit and cashflow. The business 101 is a great tool to visually show you the flow within a business and therefore the difference between profit and cashflow.



When you start a business, the first step that is usually taken is for the owners to invest money (cash) into the business. This money is then used to purchase assets, sometimes in addition to the money you have invested, you might need a loan from another company to help you purchase the assets you need to generate a profit.

You can increase your profit by increasing your sales or margins. However, you also need to watch and monitor your expenses as these are a drain on your profits. If overheads and wastage (time or materials) are unmanaged, they can have a significant impact on your profit.

This profit is then turned into cash (when clients pay you). Drains on your cash can be late paying customers, holding more stock/materials on hand, loan repayments, tax payments and paying suppliers too quickly.

To improve the amount of cash on hand you have, you need to collect your payments faster, hold less stock, invoice more regularly, negotiate better payment terms with suppliers and so forth.

Then you can decide how much cash you want to withdraw from the company as owner. The balance of cash is then reinvested into the business to increase and accelerate the cycle.

Monitoring cash flow is crucial for maintaining the financial health of your business. However, many people do not know where to start so below are some effective strategies to help you keep track of your cash flow. These strategies relate to all businesses/organisations. It can also be applied to your personal finances too.

1. Create a Realistic Budget – this does not need to be complicated
2. Track Transactions Daily – code your Xero transactions daily, or review your personal accounts daily
3. Perform Cash Flow Forecasting – put together a cashflow forecast (this is different from a budget)
4. Compare Actual vs. Projected Cash Flow – use some reporting tools on how you are tracking
5. Maintain a Cash Reserve – put some money away for a rainy day (tax account, Savings account)
6. Leverage Technology – to become more efficient and better at tracking and monitoring your cash position.
7. Monitor Key Cash Flow Metrics – determine what you need to monitor to keep you on track
8. Regular Financial Reviews – review your position regularly (we recommend monthly)



Let's look at each of those in a little more detail.

A well-crafted budget serves as a roadmap to guide you to manage your financial activities. It helps you plan for expected income and expenses, ensuring you allocate resources efficiently. It also ensures that you review your expenditure and then track it to keep you accountable.

By coding your Xero daily, you can see where your business is at glance. If you don't use Xero, reviewing your daily transactions within your bank accounts provides a clear picture of your current spending habits. This practice helps you stay on top of your cash inflows and outflows, making it easier to identify trends and potential issues. It ensures that you reflect and are using your cash on the things that matter.

By regularly forecasting your cash flow, you are then able to predict when it would be best to buy that new piece of equipment or hire that next team member. It also shows periods where cash may be tight to allow you time to put strategies in place to overcome or minimize the impact.



Regularly monitoring is key, this should include comparing your actual cash flow to your projections. This process helps you understand variances and adjust your plans accordingly. This practice ensures you stay aligned with your financial goals.

We also recommend building and having a cash reserve, the amount of this differs greatly depending on the situation and the business. By having a cash reserve, it can help you manage unexpected expenses and cash flow gaps. Aim to set aside a portion of your profits each month to build this reserve until you have an amount that works for your business.

We recommend and use accounting software like Xero to automate cash flow tracking and generate real-time reports. And then use this information to integrate into other products like Spotlight Reporting to produce future forecasts. These tools can provide valuable insights and help you make informed decisions.

Ask your accountant on what key metrics you should be tracking and monitoring in your business to ensure your cash flows are as you need it to. Examples of some key metrics are the number of days it takes to get paid by your customers, your profitability per job and your staff productivity. Each business is different, and because of this, the metrics that you should track will differ.

Regularly review your financial position to assess if your cash flow management strategies are working for your business. If required, adjust your plans based on current financial data and market conditions to stay agile and responsive. A budget and a cashflow forecast are working documents, that means you can change them as required when circumstances change.

By implementing these strategies, you can effectively monitor and manage your cash flow, ensuring your business remains financially stable and prepared for growth.

At Tael, our focus is on helping our clients to succeed, and this is at the core of what we do. As such, we offer various options to meet our clients' needs on the implementation and monitoring their cashflow.

The options include, but are not limited to, Business Bootcamp a 5-week intensive programme where you gain greater understanding of cashflow, the metrics for your business, and how to improve these. A cashflow improvement meeting, a robust 90-minute session taking a look at the cashflow cycle within your business.

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If you would like help, please contact us

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