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Avoid the cash-flow crisis

Retailers need to keep an eye on customers and debtors, writes **Mark Fenton-Jones.**

Reflecting on success . . . Taurus's Sharon Williams says businesses need to be proactive. Photo: JACKY GHOSSEIN

The decision by the Reserve Bank of Australia to lift official rates by a quarter of a percentage point to 6.25 per cent, and the possibility of another rate rise in the first quarter of next year, will affect retailers in several ways.

First, some consumers will be less inclined to buy if they can do without.

Second, if they do have to buy something, they will be looking for value.

And third, retail customers will not be the only ones wanting to hold on to their money for as long as possible. Businesses have to also watch their commercial customers who may start to treat them like a bank by delaying payments.

The Christmas holiday period has always put businesses under intense cash-flow pressure. Besides having to invest in stock in the seasonal lead-up, the overdraft limit can be stretched as staff are paid bonuses and/or holiday wages, and payments for goods are late as people take holidays.

On top of that, businesses need to put aside the portion of sales subject to goods and services tax that is due in February, although some will no doubt be tempted to use it as a free loan during this period, which only delays the pain.

The managing director of boutique marketing agency Taurus Marketing, Sharon Williams, advises businesses to be proactive in moving stock and not to sit back and hope customers will just walk in.

"Once you've got the stock in, your job is to move it fast and get the money for it quickly," Williams says.

"Christmas gives you a great excuse to get money in quickly, because there are seasonal opportunities in retail. But you don't want to slash prices; you want to offer extra value."

That extra value can be offered through sales promotions, such as "buy one get one free offers" that can speed up the turnover of stock. It may also involve copying the big retailers such as David Jones and introducing Christmas shopping nights with extended opening hours, and possibly some form of entertainment.

"The big thing for smaller businesses to understand is that it's OK to ask for money for your products or services," Williams says. "And if there is a fair exchange then price is actually irrelevant."

Retail customers are not the only source of cash for small businesses. Just as cash can dry up from this quarter, commercial customers also need to be watched for any signs of distress.

Accountants with small-business clients are painting a bleak picture for badly managed businesses.

"They are going to have to watch their cash flow a lot closer. It's going to place small business in a cash-flow crisis again," the chief executive officer of the Australianbiz website, Joe Kaleb, says.

Poorly managed businesses that fail to set aside money for their business activity statement liability can attempt to pass their problem to suppliers.

"Businesses have to diligently watch their debtors," Kaleb says. "There is going to be a bigger priority not to let it get out of hand."

Along with wages pressures, he says businesses will find it difficult to pass on cost increases, such as the rate rise, unless customers perceive they are getting a better product or level of service.

"Once you've got the stock in, your job is to move it fast."

While that may be a difficult ask, he says that businesses should make collecting cash a bigger priority, especially before the Christmas holiday period.

"Otherwise you are going to have to wait until January when people are coming back from the vacation," Kaleb says. "In the lead up to Christmas, small businesses are really going to have to chase up those debts. If they don't they will end up paying a higher rate of interest on overheads such as holiday pay that are funded through an overdraft."

Chartered accountant with Hayes Knight, Greg Hayes, says that the accumulated impact of several rate rises will tip the balance for undercapitalised small business owners that have funded their businesses through the equity in their homes.

"We're going to see an increasing number of bankruptcies and an increasing number of businesses getting into trouble," Hayes says. "A lot of their business financing is tied to their home loans."

In Hayes' view, the combination of a high level of gearing with low equity in the property and a cooling off in trading conditions, is a recipe for a business falling over.

Unless other small businesses want to be pulled down by these businesses, the message is clear.

"Your debtors' ledgers are going to get worse; your delinquent businesses will be under increasing pressure, so you need to deal with them earlier," Hayes says.

"Don't let debtors get out to 46 or 60 days. If your trading terms are 30 days, deal with them immediately on the 30 days or even try to bring trading terms back in."