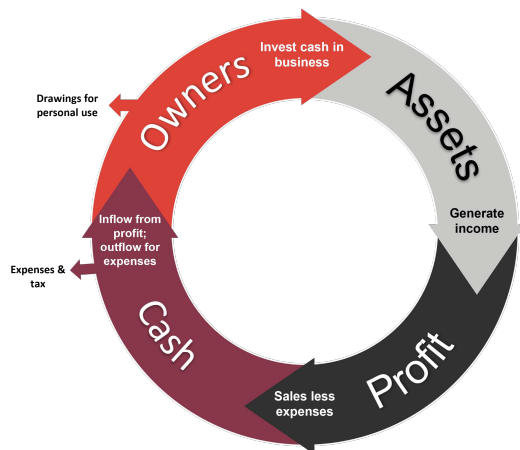


## Guide to Achieving Cashflow Freedom

Cashflow freedom means having enough in the bank - both business and personal accounts - to do the things you want to. Whether that's buying new assets, rewarding your team, or taking a family holiday, cashflow freedom means living your desired lifestyle.

### The Business 101 Cycle

The Business 101 Cycle demonstrates the link between owners' investments, profit, cash, and drawings.



Your investment, along with finance, is used to purchase the assets you use to generate a profit. Growth of sales and margins results in profit gains, whereas unchecked overhead expenses and re-work can drain your profit.

That profit generates your cashflow, which is impacted by how quickly customers pay you, how fast you sell stock or complete work, how soon you pay your suppliers, and tax payments.

The amount of cash left over is what's available for you to take for personal use as drawings or re-invest into the business to purchase assets to generate income.

### The link between your business's cashflow and your personal cashflow

As a business owner, the amount you can draw for personal spending depends on the cash available in your business. In tougher economic times, you may need to draw less from the business. The more money you can leave in the business, the more resilient your business will be.

On the flip side, if you have plans to upgrade your house or car, or take a longer family holiday, you may need to revise your business's forecast and implement strategies to increase cashflow so you can draw more from your business.

#### **A personal budget gives you better visibility and control of your personal finances.**

It's not all about restriction; it gives you the freedom of knowing exactly how much money you have available to spend, allows you to plan your spending, and helps you achieve your financial goals. By fully understanding your personal financial situation, you'll be able to revise your personal budget to determine the lowest amount you can afford to draw from the business and how much cash you can reinvest in the business.

### Your business's cashflow

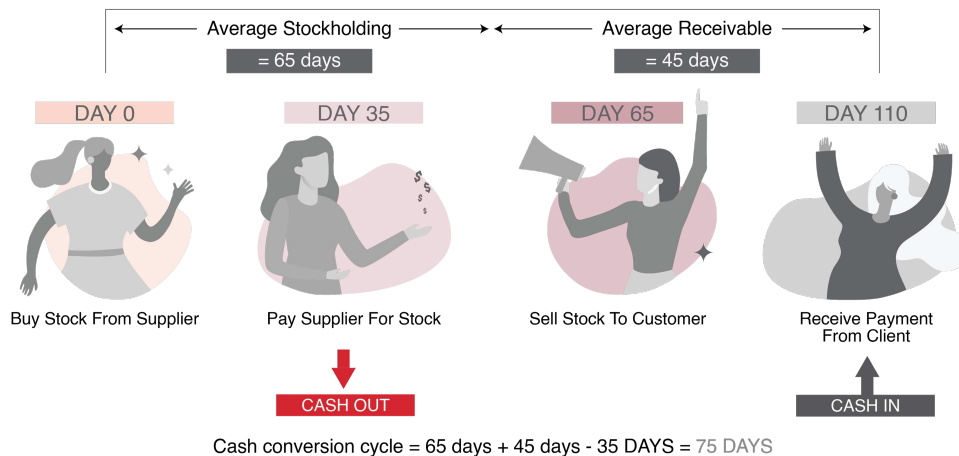
#### **Business owners often wonder why their bank balance doesn't always reflect their profit.**

Profit is the amount left over when all of the business's expenses and tax have been paid. Profit doesn't go straight to your bank account - it's used to buy new materials or equipment required for reinvestment. Only the amount left over can be taken home by the owners. The stronger your business's cashflow, the stronger your personal cashflow can be.

#### **Your Cash Conversion Cycle**

The Cash Conversion Cycle shows the number of days your cash is tied up in the sales process. Usually you buy your stock from your supplier and pay for it before you sell it to your customers. Or, you start a job and have to pay wages and costs before invoicing for the job. Your cash is tied up until you receive payment from your customers. The goal is to have the shortest cash conversion cycle possible to increase the cash available in your business. The two areas to focus on to improve your Cash Conversion Cycle are your Inventory/Work in Progress (WIP) Days and Debtor Days.

$$\text{Cash Conversion Cycle} = \text{Inventory/WIP Days} + \text{Debtor Days} - \text{Payable Days}$$



In the example above, you'd need enough cash to cover the 75 days from paying for stock until receiving payment.

### Inventory/WIP Days | $\text{Inventory/WIP} \div \text{Cost of Goods Sold} = \text{Inventory/WIP Days}$

This is the number of days it takes to sell stock after receiving it from your supplier, or the number of days it takes to finish work for clients. It's important that you measure your stock and identify obsolete stock that doesn't sell quickly. For work in progress, ensure you accurately record the time it takes, implement processes to avoid rework, and consider sending interim invoices for longer projects.

### Debtor Days | $\text{Debtors} \div \text{Sales} = \text{Debtor Days}$

This is the number of days it takes customers to pay you after receiving their goods or service. Ensure you have robust Terms of Trade and that payment terms are 7 days after invoicing - not payment by the 20th of the month. Review your follow up process and contact customers as soon as invoices become overdue.

## Cashflow Management strategies

To ensure you're managing your cashflow effectively, consider implementing the following strategies:

1. Create or review your debtors process and enforce payment terms.
2. Qualify customers before offering credit.
3. Create a stock control system and monitor sales trends.
4. Negotiate better terms with suppliers.
5. Utilise and adhere to budgets and forecasts.
6. Determine a monthly personal drawings amount.

## Measuring success

### Set improvement goals around the strategies you intend to implement.

Determine the Key Performance Indicators (KPIs) relevant to the goal and set attainable targets. Break each goal into manageable actions with achievable (but motivating) timeframes. Utilise a dashboard or app to monitor your results to ensure you're on track.

As with all change, there will be some setbacks. The more visibility you have over your numbers and KPIs, the quicker you can respond to these and recover. Small improvements can quickly add up to a substantial increase in cashflow. Celebrate your success when you achieve your goals. Then, start working on the next area of improvement.

## How we can support you

We love working with our clients to improve their cashflow. The personal impact can be huge. Our Cashflow & Profit Improvement Meeting helps you understand your Cash Conversion Cycle and identify the impact small improvements could have. We'll also look at small changes you can make to increase sales and improve your profit. No matter what level of support you need - from catching annually to do your forecast to meeting monthly for accountability to achieve your goals - we're here to help. By achieving cashflow freedom, you'll reduce your stress levels and free up time to spend doing what you enjoy most.