

THE CHRISTMAS CASHFLOW CONUNDRUM

With the festive season upon us, businesses can't afford to be complacent and will need to plan their cashflow carefully. The lead-up to Christmas may be great for sales, but can exacerbate seasonal cashflow challenges.

BY ROB LAMERS

As business owners are all too aware, the problem is that the silly season's typical 30 percent sales bump brings with it increased costs (labour, supplies and other expenses) which have to be met before the income from the extra sales are realised. At the start of the New Year, it's also much harder to chase debts, with many customers going on holiday in January or simply dragging their feet.

Ironically, this situation means that the more you sell at Christmas, the more danger your business can be in of ending up in the red if you can't meet your commitments.

This is the Christmas cashflow conundrum: there's a bigger than normal gap between your outgoings and incomings, and it also takes longer for your customers to pay. It's a double whammy that Edward

Karras is familiar with. The managing director of Top End Consulting, a labour firm with a unique collective bargaining agreement that allows it to hire out staff at a flat rate, without holiday penalties. Karras says that his business will do about 35 percent of its annual revenue over Christmas.

"We're flat out over the November/December period," he says. "But with 28, 30, or even 60-day payment terms, it can be February or even March before clients pay."

Karras says that to prepare for Christmas, recruitment companies traditionally build cash reserves in the lead-up months. "This means they often stop spending on important marketing and sales initiatives."

CHRISTMAS 2010

This Christmas brings additional pressures to cashflow. For one, the ATO has been taking a closer look at SME BAS debts. Secondly, steady interest rates are making debt more expensive and there might be more rises before Christmas arrives. Even if this isn't affecting your business directly, it will be affecting your customers. Thirdly, according to Dun and Bradstreet, business to business payment terms are still

FIVE STRATEGIES TO CONSIDER

1. Shorten your payment terms.
 2. Deal early with problem payers.
 3. Pay your suppliers at the end of their payment terms.
 4. Perform credit checks on new customers.
 5. Obtain debtor finance.
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to return to their pre-GFC levels and they currently exceed the standard 30-day term by more than three weeks.

This is having tangible effects on the cashflows of many businesses, with 50 percent of the executives surveyed by Dun



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and Bradstreet declaring it was having a negative business impact.

FORMULATE YOUR PLAN

Fortunately, there are strategies that can help your business beat the Christmas cash drought. The first step is to understand your cashflow situation, what sales boost Christmas is likely to bring and what effect it will have on your costs. Once you have this insight, you can then form a plan. Depending on your business, strategies you might consider include:

- **Reviewing your stock and supply chain.** Bulk-buying may sound like a good way to shave a few cents leading up to Christmas, but have you calculated the costs of storage, insurance and shelf life? Will you be able to sell this stock or will your cash be tied up in it for some time?
- **Shortening your payment terms.** This may or may not help, depending on your relationships with your customers and whether they pay on time to begin with.
- **Dealing with slow payers.** If you have a particular customer that you know will be

CHRISTMAS CASHFLOW CHALLENGES

- 30% jump in sales. Putting the heat on your cash reserves.
- Business-to-business payment terms. Usually three weeks late. Likely to be even later thanks to the holiday period.
- Rising interest rates. An extra squeeze on you and your customers.
- Stricter conditions by the ATO. Less room to move on debt repayments.

slow-paying, you could start chasing for payment early.

- **Hold the cash you have.** Keep your cash reserves intact by taking full advantage of the payment terms offered by your suppliers.
- **Be wary of new customers.** The Christmas rush can often bring new customers. Remember that you can check their credit worthiness with credit agencies when assessing whether or not to accept them. You should always make sure to do your due diligence.

CASHFLOW FINANCE

Another solution to cashflow problems is to seek some type of finance. One form well suited to cashflow management is debtor finance, something that an increasing number of SMEs have discovered and adopted over previous Christmas periods.

For the unfamiliar, debtor finance is a form of credit based solely on receivables. Typically, it allows businesses to receive up to 80 percent of the face value of their invoices within 24 hours of issue. The remaining 20 percent is paid to the business once their customer has paid (however many weeks later), less a fee. The advantage of debtor finance at Christmas is that it keeps your cashflow healthy, allowing you to take full advantage of the upswing in Christmas sales without having to worry if you have the liquidity to support your increased costs.

“With so much of our revenue billed in December, debtor finance provides the cash we need to pay our labour costs,” says Karras. “Over the past few New Year periods we’ve relied on it, even increasing our facility’s limit by 15 to 20 percent each time. Without it, we’d have to stop spending months beforehand in order to build a cash reserve; something that would hamper our business.”

While debtor finance as a strategy for managing cashflow has been around for some time, surveys by CPA Australia show that its uptake by SMEs has grown rapidly in recent times (their number has jumped by 50 percent per annum over the past five years and is now estimated to be over 5,000).

Of course, it won’t be the right fit for every business. For one thing, you need to be dealing with customers on credit terms. But it does have the advantage of not requiring the family home to secure the facility. Technological advancements have also made it easier for SMEs; for example it can be linked directly with accounting software like MYOB.

Another form of finance you might consider is a line of credit from your bank. Such arrangements can be flexible, allowing you to temporarily draw down what you need to meet your Christmas costs. However, they usually require the use of assets as security. If you foresee your December cashflow being tight, you might also consider applying for a small business loan; something best done ahead of time as loans can take time to approve.

SUMMING UP

Whatever Christmas cashflow strategy you choose, the important thing is to plan and to stay on top of your situation, making the most of Christmas’ opportunities without over-extending your business. That way, when January comes around, you too will be able to enjoy that holiday break. **DB**

—Rob Lamers is CEO of Oxford Funding, a debtor finance specialist owned by the Bendigo and Adelaide Bank Group.

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