

# Why February is cash flow hell...and what to do about it...

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If you listen to the news reports Australia survived the economic crisis relatively unscathed.

But behind the news, companies are still failing and this February will be a vital test of our economic optimism. The number one reason why companies fail is cash. Don't be deceived by the simplicity of this problem – some of the mightiest companies have simply run out of cash or their rate of growth has outpaced their capacity (or their banker's willingness) to fund the additional investment.

The balance between growth and cash flow is always a delicate one. All it takes is for a few major customers to either slow down or stop paying you and your cash flow is suddenly compromised.

February is traditionally the worst cash flow month in the calendar. Last month *Dun & Bradstreet* released data showing that business to business payment days have again risen and now sits at 53.9 days. Large companies are the worst payers with smaller companies, previously the fastest payers, now slowing their payment cycles. With another interest increase and BAS payments due, many will pick and choose who they pay.

If your customer base is consumers the news isn't that much better.

A separate *Dun & Bradstreet* analysis shows that up to four in ten Australians will now need to use their credit cards to pay bills. The 18 to 24 age group and families with children appear to be faring worse now than they did at the height of the financial crisis. And, this is without factoring in an interest rate increase.

The risk of default, regardless of whether you are a B2B or B2C business, is high.

So what can you do to reduce your risk?

**Manage your debtors.** Set your payments terms and stick to them. Have a strong follow up process. In an environment where the first bill to be paid is the one judged to be the most urgent, it's worth speaking up and asking for what is owed to you.

**Plan.** Take a look at the cash requirements of your business and what investments need to be made. Make sure forecasts are not overly optimistic and performance measured closely. To use a term borrowed from the cavemen, in the current economic climate unless you are rolling in cash you can only eat what you kill.

**Explore.** Spend some time looking at efficiency. Not so much cost cutting (we've probably all done this) but where gains can be made without sacrificing resources.

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