

Improving Your Small Business Skills

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A Newsletter to Increase both the Wealth and Lifestyle of Your Family

Cash Flow/ Financial Management Issues When You Commence Small Business

Insufficient Capital

Having insufficient capital (cash flow) is one of the main reasons businesses fail in the initial stages. Adequate Capital Monies is important for:-

- *Ensuring you have sufficient money to live.* This may mean starting your business part time and paying for your living expenses through a full time or casual employee position. I commenced my business this way – working part time for three days a week initially and then reducing it as my business developed. Relying on “casual” income for living costs can substantially increase your chances of survival, and minimise stress on your family during this crucial phase of your business. Further, starting part time can assist in trialing your products, services, marketing and sales techniques in a cost effective way.
- *Having enough money to cover business costs in the first six to twelve months* when your income is not as high as you had hoped. Due to my experiences with advising small business over 20 years, this is often a problem and on many occasions the business grows at about 50% of the level predicted.

Minimise external loans when you commence

The use of your own capital and/or friendly loans can help ensure your survival in the first twelve to twenty-four months. These loans are more flexible with loan repayments during periods where the business is becoming established.

Buy your Plant and Equipment with Long Term Finance

Assets which have lives of say five years, should be financed by loans over a similar time period. If short term finance is used, then the working capital (day to day money) of the business can

become severely stretched. It can greatly affect your ability to grow the business naturally.

Free and Subsidised Business Advice

Attempt to obtain as much FREE and/or SUBSIDISED ADVICE on small business both before and when you commence. You need to learn how to run a small business rather than just relying on the technical skills you have built up as an employee. I strongly recommend you go to BEC Australia's website (www.becaustalia.org.au). They have 124 offices throughout Australia. Most have contracts with State or Federal Government agencies. Under these contracts, they provide business advisory support services to small business with less than 20 employees.

David Chambers, the principal of DJC Accounting Pty Ltd, was involved as a Director, Treasurer, Sponsor and Chairperson of the Blacktown BEC, which became Basi and now trades as Greater Western BEC. He was heavily involved in this organisation for ten years (1998 to 2008).

Setting up a strong Trade Debtor collection system

Establishing this from the start can have a few advantages:-

- It ensures you are not positioned too far down the pecking order. Having a system in place could assist you being in the Top Ten of clients your customer pays promptly rather than in the Top Twenty. This difference may represent receiving your monies from the customer 30 days earlier.
- Harder to set up a “new” debt collection system when your business grows and you need cash to pay for rent, contractors and employees.

Speaking from experience, you have to re-educate your clients that you should be paid earlier than you have been previously enforcing. It is not that easy to do.

Minimising Money in Inventory

This is an area when you start that is not easy to control as you are learning what stock your customers wish to buy. It is important to have a system in place from the start to monitor what is selling, what is not and determining the optimum stock levels. This optimum should be balanced between satisfying customer needs and minimising overstocking of inventory.

When determining suppliers before commencement, you should attempt to factor in how they will change your terms of trade as you grow. Will the terms change from paying them on delivery to say 14 days, based on time or volume of purchases? The quicker they change and longer your payment terms are with your suppliers, the better you can absorb the growing pains all small business goes through.