



**CAPRICORN**  
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Other resources in step 1b:

- **Video explaining the strategies to better manage the cashflow**

## Cashflow management

Cashflow stress is an all too common issue in many independent workshops. Managing a business is hard enough without having to stress over how staff wages are going to be paid. For some workshops cashflow stress is something experienced very sporadically while for others it occurs every month.

### Difference between cashflow and net profit

Everyone at some point in time has a good month, generating a nice profit only to realise that there is still not enough money in the bank account to pay this month's bills. This is occurring because the net profit and the bank account, although impacting on each other, are two different things.

Profit is on paper and shows the performance of the business over a period of time. Unfortunately, profit won't pay the bills. Cash, on the other hand, is real and simply shows how much money there is in the bank account. Both numbers need to be reviewed in conjunction with each other to give a true understanding of the business's performance. Reviewing one of them and ignoring the other will only distort the perception of the business's performance.

The best way to understand the difference is to be aware of the actual causes for the cash balance not equalling net profit.

- **Timing differences**

This is the difference between the recording of the sale or expenses for accounting purposes and the actual receipt or payment of cash. The most common example includes debtors (accounts receivable) and creditors (accounts payable).

Assume you make a \$400 sale today and the customer pays in 30 days. Today the Profit and Loss will show a sale of \$400 while the bank account won't show that \$400 until it is paid 30 days

later. This cash gap gets bigger as more customers are put on account. On top of this, add in slow payers who pay in 60 to 90 days and it can be quickly seen how a business generating healthy profits can very quickly get into financial difficulty.

- **Non-expense cash payments**

Some cash payments are not an actual Profit and Loss expense. The most common examples are asset purchases, principal loan repayments and business income tax payments. These are all cash outgoings that are not recorded as expense items in the Profit and Loss.

Given that many businesses at some point in time will experience cashflow stress, here are seven strategies to help get the cashflow positive.

1) **Credit control**

This is critically important. The more people who pay cash on delivery the better. If the majority of sales go on account this will be an area that needs some attention. Credit control was covered in detail in March 2013 (Debt Collection). It deserves another look.

Key points include:

- Retail accounts – If retail customers are given credit, the business manager or owner need to ask why. There may be good reasons for giving credit in rural areas but of all industries, the automotive aftermarket is probably the last industry where it is still possible for customers to get a line of credit. Credit cards make line of credit obsolete.
- Always have invoices ready prior to customer arrival. This is often the reason why customers acquire credit when they really don't need it. Every workshop must have a policy that ensures that invoices are always ready prior to customer arrival. If there is not enough time to have invoices ready, the business is obviously booking in too much work.
- How will the customer be paying for that job. If the workshop has a history of customers asking for credit once the job is done, it's time for the business to get on the front foot and ask the customer how they will paying for the job when they drop the car off – not after the job has been done. There must be a discussion about credit in the morning before the work is done.
- Credit applications – to apply for a credit card there is a credit application process so it follows that automotive workshops need to have a similar process. Having a process demonstrates to customers that the business is serious about being paid on time.
- Develop a debtor collection procedure. Collecting money needs to be a routine done each week and not a reaction when the bank account is getting low. Assign responsibility to somebody and make sure it is done each week. Remember the squeaky wheel gets the oil.

2) **Limit overtime**

It is amazing how many workshops have qualified technicians producing around 60 per cent productivity but they are still working and getting paid for overtime. It doesn't make sense. If there is a cashflow issue there needs to be a line drawn in the sand, with the staff being told that until the business is in a better financial position, all overtime will be limited to special and authorised jobs.

### **3) Monitor labour time**

Technician output is what drives the profitability of a workshop. Mark-up on parts is just cream. Why is it then that staff are chided for forgetting to record a part used but manage to get away with only 60 per cent productivity. Review the strategy about the Staff Scoreboard, published in October 2011.

### **4) Charge for diagnostic time**

Stop diagnosing people's problems for free. So many workshops spend time diagnosing a customer's car when no financial commitment has been obtained from the customer. When was the last time a plumber or electrician came around to your house and diagnosed your problem for free? If you must, spend five or ten minutes looking at the customer's car for free, but then make it clear that the car must be booked in for a diagnostic inspection which will include XX and cost \$XX. If they won't commit, it proves that all they wanted was a free resolution for their problem.

### **5) Follow up quotes and estimates**

When it's quiet, go back through the quotes and estimates book and follow-up the customers. Customers live extremely busy lives and sometimes a gentle prod can get things moving. It might feel awkward following up customers but every job counts. An extra \$500 job might be the difference between you and all your staff getting paid this week. Review Quote Book, published in September 2013.

### **6) Focus on upsells and monitor through the average dollar sale**

The main reason why some workshops have an average dollar sale of \$300 and others \$600 is not location but sales skills. Technicians need to be meticulous in reporting everything that needs repairing or servicing and it is up to the sales advisor or the owner or manager to sell those recommendations. If this is worked on diligently, sales can be increased without having to increase the number of cars booked in each day.

### **7) Communicate with the customer database**

It's six times cheaper to get an existing customer to return than to advertise and win a new one. If things are quiet and cashflow is tight make sure you are communicating with your database. It has been proven time and again that service reminders or rego reminders really do work. If need be, offer an incentive to get the customers to return. See *Keeping in contact with your customers* published in September 2012.

So here's the challenge. If you're experiencing cashflow issues, start focusing on the seven strategies listed above and plan for a positive cashflow.

The place to start is [www.tatbiz.net.au/capricorn](http://www.tatbiz.net.au/capricorn)

*Just go for it!*