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Strategy 1: Get your pricing right

Determining the price to charge for a product is frustrating for most businesses. However, getting your pricing strategy right is critical to your success in business because it affects many areas of your business. The pricing strategy impacts the type of customers attracted to your business, the quantity of product sold, how the product is perceived, product promotion and your profit.

There is no single way of determining the best pricing strategy for your business. The following is a list of factors that you may consider when developing your pricing strategy:

- The type of customers you are targeting.
- The positioning of your products in the market.
- The relationship between the price and quantity sold.
- How you will promote your products.
- How you will distribute your products.
- The costs associated with your products including the fixed and variable costs.
- Your competitors and their pricing decisions.
- The objective of your pricing strategy.
- The method of calculating price.
Review and test your pricing regularly. Be willing to test the market and adjust your pricing strategy to maximise your cash flow.

Case Study

One of my clients bought a pallet of soft drink at a large discount and passed the discount onto to his clients. The stock barely moved. He lifted his price by 10 cents and the soft drink flew out the door. By testing his market and adjusting the price he was able to maximise his revenue.
Strategy 2: Reduce your cost of goods sold

This strategy complements the first strategy ‘get your pricing right’. The gross profit margin is the difference between the price you sell your product for and the price you paid for it. Increasing the margin between the two will increase your profit and your cash flow. There are two ways to increase your gross profit margin: increase your price (as discussed in strategy 1) and/or decrease the cost of goods sold. The cost of goods sold is the cost of the product to you that was sold to your customers.

Examples of ways to reduce your costs of goods sold:

- Negotiate with your suppliers for a better price if you buy in bulk. Only use this strategy if you can turn over the stock quickly.
- Negotiate with your suppliers for a discount if you pay early if there isn’t a discount already in place.
- Shop around with other suppliers to ensure you are getting the best value (this is not necessarily the best price).
- Purchase new equipment or implement new processes to produce the goods more efficiently.
Strategy 3: Control your expenses

Regularly review your expenses by comparing them against your budget and prior periods. If an expense is greater than budgeted or than the previous year then investigate the reason for the increase.

Examples of how to control your expenses:

- Compare expenses against your budget.
- Compare expenses against the previous year or period.
- Compare expenses as a percentage of sales.
- Train your employees to be thinking about how expenses can be reduced. Reward them for ideas that reduce expenses. Rewards don’t have to always be monetary. Be creative with the reward system.
- Review the transaction listing to understand each expense.
- Prepare regular financial reports.
- Require quotes from various suppliers.
- Rearrange annual payments into small payments. This generally costs more and should only be used when needed. Revert back to annual payments once you are able.
- Implement performance measures to monitor your expenses. For example, measure the costs of vehicles on a cents per kilometre basis.

Caution: Before reducing expenses ensure you are not reducing your competitive advantage as a business. For example, if customer service is your competitive advantage, reducing a sales person may cause that advantage to be lost.
Strategy 4: Manage your debtors

A sale isn’t a sale until the money is in the bank. A well managed debtors system is critical for a successful business. Ensure your debtors system has preventative measures as well as a step by step plan to recover overdue accounts.

Some examples of how to improve the debtors system:

- Credit checks for all new customers.
- Receiving deposits on signing of contract.
- Discounts offered for early payment.
- Make it as easy to pay as possible. Offer to take credit card details to move the risk to the credit card company.
- Send out invoices immediately.
- Bank regularly.
- Regularly review aged receivable report and consistently follow a step by step plan to follow up overdue accounts.
- If the customer cannot pay the whole amount, be flexible and arrange a payment plan. Take the first payment straight away while on the phone by asking them to pay by credit card.
Strategy 5: Manage the stock

Controlling how much stock is on hand can be both an art and a science. Not enough stock will lead to lost revenue. Too much stock can impact cash flow. I have seen how both can have a major impact on profit and cash flow. For example, a retailer increased the amount of stock on hand and sales increased dramatically when customers saw the availability of products. This is more the exception than the norm. Generally, businesses have too much stock that is tying up valuable resources. One possible reason is that the owner doesn’t want to realise a loss on the sale of the stock. However, they have not considered the hidden costs by holding onto old stock such as missed opportunities due to poor cash flow and shelf space that could be used by a fast moving product. Knowing what the right stock level for your business may require some trial and error. However, with a good accounting program you will be able to make an educated guess about how much stock to carry.

Examples of how to improve stock control:

- Monitor stock regularly. Use ratios such as inventory turnover and days inventory to compare to previous periods and industry standards.
- Clear old and outdated stock by packaging together or discounting.
- Don’t buy too much stock even if a discount is offered if it will take an extended time to sell.
- Conversely, for fast moving stock, buy in bulk to receive a discount.
- Focus on a ‘just in time’ ordering system to save build up of stock.
- Set minimum and maximum levels of stock and stay within these levels.
**Strategy 6: Don’t pay too much or too early**

Ensure you have a step by step purchasing procedure that is followed and monitored. Lack of proper procedures and monitoring may lead to purchasing too much, paying for undelivered goods or overpayments. For example, it is common for payments to be made on a statement and yet not have an invoice to verify the purchase. In my experience this can be the cause of overpayments.

Examples of how to improve purchasing and creditor payments include:

- A purchase order system that has two signatures for accountability.
- A system for requesting quotes for new products or for previously purchased products every six months.
- A procedure for receiving goods.
- A procedure for payment of goods that requires the purchase order, delivery docket, invoice and statement. The level of paperwork required may vary depending on the size of your business.
- Always pay your creditors on the day the invoice is due. Do not pay early or late.
- Negotiate longer payment terms or a payment plan if the business is struggling.
- Negotiate discount for early or up-front payment.
Strategy 7: Prepare 3 month cash flow plans

Cash flow is all about timing. A business can be profitable and still have cash flow problems. For example, ABC bought stock for $5,000 in February. They paid for the stock at the end of March. The stock was sold to XYZ for $10,000 in April and they received the money for the sale in June. In April ABC has recorded a profit of $5,000. However, the profit doesn’t hit the bank till two months later.

Prepare a three month cash flow budget. A cash flow budget includes all the expected cash inflows for the month less all the expected outflows for the month. I prefer to prepare 3 month cash flow budgets as opposed to yearly cash flow budgets which I found needed updating within a couple of months of preparing them. Any excess cash should be transferred to a high interest bank account that can be easily accessed when it is needed. See below for an example of a cash flow budget.

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### Example of a simplified 3 month cash flow budget

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>August</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Inflows</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$10,000</td>
<td>$7,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>Sale of Asset</td>
<td>$2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Inflows</strong></td>
<td>$10,000</td>
<td>$9,000</td>
<td>$12,000</td>
</tr>
<tr>
<td><strong>Cash Outflows</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$7,000</td>
</tr>
<tr>
<td>Loan Repayments</td>
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<td>$1,500</td>
</tr>
<tr>
<td><strong>Total Outflows</strong></td>
<td>$11,000</td>
<td>$11,500</td>
<td>$8,500</td>
</tr>
<tr>
<td><strong>Net Cash Flow</strong></td>
<td>-$1,000</td>
<td>-$2,500</td>
<td>$3,500</td>
</tr>
<tr>
<td><strong>Cash Balance at beginning of month</strong></td>
<td>$3,000</td>
<td>$2,000</td>
<td>-$500</td>
</tr>
<tr>
<td><strong>Cash balance at end of month</strong></td>
<td>$2,000</td>
<td>-$500</td>
<td>$3,000</td>
</tr>
</tbody>
</table>
Strategy 8: Get the most out of your assets

Assets that are not producing a reasonable return on investment and do not have any foreseeable benefit in the future should be sold. These assets are tying up valuable capital that could be used elsewhere in the business. You may have to pass on a great opportunity because your cash is tied up in an unproductive asset.

Review your assets for the need to upgrade. If there is a more efficient option available and it makes economic sense then upgrade to the more productive asset.

When purchasing an asset weigh up the benefits and costs of both purchasing and leasing. The better option may not be the same each time. Seek independent professional advice.
Strategy 9: Tax problem or cash flow problem?

Legitimately reduce your tax until the benefits no longer outweigh the costs. Don’t use all your energy on reducing tax, instead focus on improving your business. Always seek advice from your tax accountant before the end of the financial year to minimise your tax. It’s usually too late after the year has ended.

Sometimes there is the belief by business owners that they have a tax problem when they in fact have a cash flow problem. Work out how much tax you paid in the previous year as a percentage of sales. If the tax paid was 10% of your sales then put 10% of your sales into a separate account that returns high interest. If your business has had a significant increase or decrease in its profit then adjust the percentage up or down depending on the change.
Strategy 10: Reduce owner’s salary or drawings

One common problem in small businesses, especially those with poor financial reporting, is the owners withdrawing more cash than the business is generating. The owners may be taking a wage that is in excess of the business’s profit or may withdraw money out of the business bank account for personal expenses without consideration for future business cash outflows. This can destroy a business very quickly.

As the business owner you need to find the balance between reinvesting the profits to grow your business and enjoying the rewards of your hard work now. This balance will depend on your individual circumstances. A new business will need to reinvest more of its profits to grow compared to a mature business. I would recommend that a regular wage that is less than the expected profit is withdrawn and that the business account is not used for personal expenses. The regular wage should be based on a personal budget.
Diagnose the causes of the cash flow problems

Before implementing any of the ten strategies, it is important to diagnose the causes of your cash flow problems. The lack of cash flow is a symptom that results from underlying causes. For a business to be successful you need to discover and address the underlying causes for the poor cash flow. Implementing strategies to fix poor cash flow without diagnosing the cause is the same as the doctor trying to treat a disease without knowing the cause of the disease. The treatment will not be very effective if it doesn’t address the underlying cause for the disease.

At Beyond the Numbers we use our proprietary Business Performance Reviews to diagnose the causes of cash flow problems. You can find a sample Business Performance report at www.beyondthenumbers.com.au/businessperformancereview.html.
Thank you and special offer

Thank you for taking the time to download this ebook. The ten strategies in this book are not an exhaustive list. In the near future we will be publishing “More Cash Flow Strategies for a Successful Business”. This free ebook will be exclusively for our subscribers. If you have not yet subscribed to our mailing list you can [click here](#) to subscribe.

**Special Offer**

I would like to offer you a **free Cash Flow Consultation**. This is a no-obligation free consultation to discuss the issues affecting the cash flow of your business. This 30 minute phone consultation will discuss the cash flow issues that are affecting your business right now and the strategies that can be applied to your business.

This exclusive offer is available only to those who have subscribed to this ebook. [Click here](#) for more information on the free cash flow consultation.

Again, thank you for taking the time to read this ebook. I wish you all the best in your business endeavours.

Best regards,

*Scott*
About Beyond the Numbers

Business Advisors

Beyond the Numbers are business advisors who focus on improving cash flow and increasing profits for businesses. From analysing financial performance and internal controls to developing key performance indicators, to providing personalised assistance and advice, we provide real solutions to increase your financial performance.

About Scott Richards

Director and Founder of Beyond the Numbers

Scott currently lives in Brisbane, Australia. He has worked with small and medium sized businesses both in Australia and internationally since 1994. He is a qualified CPA and recently completed a Master of Business Administration (MBA) with Distinction.
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