Herald Sun

Harvest a small business cash crop

- **by: Russell Emmerson**
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Rebello Wines' Ruth and Matt Gallace. Picture: Sharon Walker
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A RECENT Westpac study found 43 per cent of businesses checked their results against their budget every month - but more than one in three, or 34 per cent, never do.

Insolvency statistics show the hard edge of this failure - 41 per cent of companies fail because of poor cash flow, or to turn it on its head, an inability to plan for frugal times.

Institute of Chartered Accountants in Australia president Craig Farrow says too many business owners simply don't understand how vital a cashflow budget is.

"A common excuse we hear is small business people simply don't have time to review and update their budgets," he says.

"Some businesses also fail to review their budgets because they are not willing to make the sort of decisions a review may necessitate.

"It's the classic 'stick your head in the sand' scenario."

Both Farrow and RSM Bird Cameron's Andrew Graham say new business owners often forget the impact of seasonal demand, the potential for cost blowouts and personal expenses the business must cover.

They also recommend minimum monthly comparisons of actual and budgeted results so adjustments can be made for higher wages, rising overheads and changing market conditions. This is likely to give businesses a better outlook for their success - or failure.

Rebello Wines' Ruth Gallace (pictured with husband Matt) says her business's cashflow budget was updated with every decision and sale.

Growing pains connected to the company's successful entry into the cider business was also reflected in its cashflow forecast, she says - and revealed its need for a new investor.

"We are now competing with multinationals, so we need to raise capital to cover those growing pains," she says.

RSM Bird Cameron's Graham says every line item of a cashflow budget should lay out calculations and assumptions - an approach likely to win friends with financiers and give indications as to where costs may need to be cut.

"We suggest that budgets be prepared considering a best case, worst case and middle of the road approach, with the commercial viability being assessed on a worst-case basis so that there is only upside if the business activities can stand alone on a worst-case scenario," he says.

Graham says sales forecasts need to be activity-based - units sold multiplied by the price for each unit.

The more detailed your calculations and assumptions, the better they can be updated with changes to industrial relations, interest rates and superannuation, Farrow says.

Both Graham and Farrow emphasise the need of businesses to budget for what is likely to happen - not what an optimistic business owner assumes will happen.

Farrow says businesses need to recognise that the making of a sale does not always lead to immediate cash.

"They need to consider the payment trends of debtors in the industry, as well as the terms of trade that are likely to be extended to the business by its creditors," he says.

"Cash budgets are crucial to ensure businesses fund operations at all times."

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