

# Blackbook jungle

The case for the defence is elementary – keep the ledger balanced so the business can grow.

BY CAMERON COOPER

For Sue Ismiel, the strategy for cash-starved business owners is simple. "Make sure you spend less than you earn," says Ismiel, founder of the multi-million-dollar company that sells Nad's Natural Hair Removal Gel in Australia, Britain and the United States. "Sadly, most businesses spend at least 10% more than they earn and this is why they are faced with enormous cash flow challenges."

The advice, at first glance, seems elementary. The fact is, however, that many Australian small and medium-sized businesses do not manage cash well. SMEs have an outstanding tax debt of about \$7bn with the Australian Taxation Office. And cash-management worries are regularly among the most pressing concerns for SMEs on the Sensis Business Index, which tracks business confidence.

Significantly, many SMEs fail not because of inadequate sales but due to lax record-keeping and cash-management practices.

Gregory Will, a partner at international accounting and consulting firm PricewaterhouseCoopers, says SMEs typically gauge their success by the amount of money in their bank account. "They are very poor at actually planning and managing that cash flow."

Will blames a lack of sophistication and resources, and the propensity of staff to "wear a number of different hats". He advises three courses of action to better manage cash flow:

- Rethink bank-financing and debtor-financing options with a view to getting better deals and quicker payments from debtors.
- Consider outsourcing debt-collection duties or employing specialist staff internally to do the job.
- Implement more sophisticated business systems and make sales staff accountable not just for a sale but getting the cash in as well.

## IT'S ALL ABOUT MINDSET

Working as a medical records-keeper in a Sydney hospital just over a decade ago, Syrian-born Ismiel experimented at home in her spare time with hair-removal formulations for an embarrassed daughter, Natalie, then six, who wanted to get rid of dark hairs on her arms.

The result, Nad's, has since developed into a leading international distributor of personal care products, and Ismiel, after starting out with few business skills but plenty of determination, has won acclaim as a manager. Yet the early days

were tough, with Ismiel risking her life savings of \$5000 as start-up capital for the business. In hindsight, she believes the shallow cash reserves were a godsend: "I had to make sure that I spent that \$5000 wisely."

Designing and packaging her own products, Ismiel was a fierce negotiator with printers. "I had to calculate the return on investment. So that was the mindset for me right from the start."

Her early lessons were around accurate sales forecasting and taking control of the cost of goods and operating expenses. "These principles, I guess, I carried with me with the growth of the business."

Ismiel has some tried-and-true tips:

- Stick to your payment plans.
- Get good accountants on board early.
- Be open and honest with suppliers and let them know your business position.
- Make sure staff add value.
- Don't get carried away with early success.

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SUE ISMIEL NAD'S FOUNDER



On the last point, Ismiel contends that some ego-driven SMEs act as though they are multinational corporations, hiring too many staff too quickly and moving into slick new offices that incur massive overheads. "This is a formula for disaster ... They fall into the trap of spending so much with very little return and that's why businesses suffer dramatically. Regardless of how much money your business makes, you just cannot spend carelessly."

### TRACKING THE CASH TRAIL

Cash flow is at the core of business survival, so knowing from where it is coming and where it is going is essential.

A cash flow strategy means temporary cash shortages can be fixed in advance; for example, using an overdraft with the bank. Financial institutions are more amenable to such requests if they can see when and how the overdraft will be repaid.

As a starting point, a business can estimate sales using past figures, and allow for periodic payments such as rent, phone and internet, staff wages and electricity to arrive at an estimate of cash flow for the period ahead. A more detailed anal-

ysis may involve a short-term tool such as a 13-week rolling cash forecast. This can track each week's actual figures against quarterly forecasts and will feed into updates on the next forecast.

Sensitivity analyses are also encouraged to let management test the ability of the business to withstand below-forecast performance, or to identify stress points on cash that may require top-up funding.

Sue Prestney, a business adviser with chartered accountant MGI Boyd and SME spokeswoman for the Institute of Chartered Accountants in Australia, says many businesses lack the internal financial resources and discipline to manage their cash flow, and do not have the funds to out-source the process. "It becomes a little bit of a vicious circle."

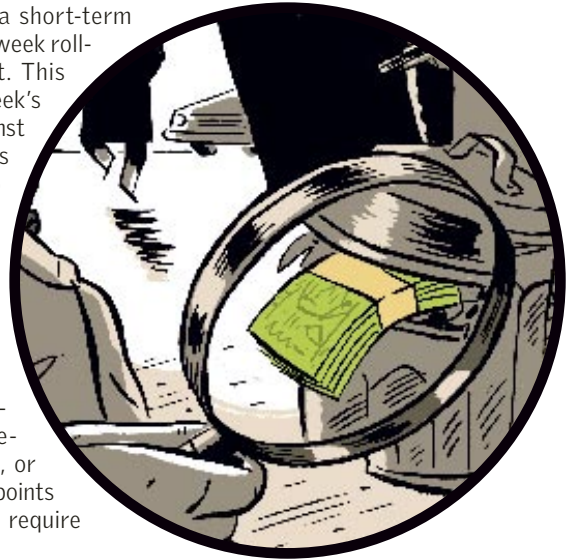
Business plans and forecasting are essential, according to Prestney, who says they force business owners to analyse the business, the market and competitors.

"It's absolutely critical that you do your cash flow forecasts and that you update them every month for your actuals so that you know exactly where you are going to be in three months' time or six months' time," says Prestney. "It's not a sexy thing to do and it's no fun, but it's important."

She recommends these as essential business principles:

- Do not use long-term borrowings for short-term uses.
- Do not use an expensive overdraft facility to buy equipment.
- Negotiate hard with suppliers to get good supply terms.
- Vet your debtors through credit-reporting agencies so you know if they are in financial strife.
- Get rid of old stock.

With stock controls, Prestney says that salesmen often concentrate on winning commissions on new deals while forgetting about old stock. "The old stock sits there and all it's doing is chewing up money," she says. "If they just got some focus on it, then they'd realise some cash from it."



## Go with the flow

Five tips for keeping the cash moving and the books balanced.

**1 Encourage faster payment**  
Offer a discount for quick payment to cut the time spent waiting for the cheque to arrive. A 1% or 2% discount often works.

**2 Change your product mix**  
If you need a fast injection of cash, consider dropping some products that tie up cash the longest and replace them with faster-moving items.

**3 Turn assets into cash**  
Selling your receivables, which is called factoring, to a commercial finance firm can create cash and clean up your balance sheet.

**4 Don't pay bills early**  
While you should try to get quick payments from debtors, never pay your bills sooner than necessary. Accrue as much interest as possible on your capital.

**5 Invest surplus cash**  
Most businesses have some extra capital for investment in securities for potentially higher yields.

**BE SPECIAL**  
Gregory Will of PricewaterhouseCoopers advises businesses to make systems more sophisticated



## A REAL CREDIT RISK

The prospect of easier credit availability and rising interest rates represent a real risk for SMEs that are not on top of cash flow management. As the residential property market cools, banks and other intermediaries, such as finance brokers, are targeting business to try to maintain profitability.

The National Australia Bank, for one, aims to loosen the purse strings to Australia's SME market as businesses seek extra finance for equipment, property and working capital. NAB says strong profits and high rates of capacity utilisation are sustaining levels of business investment, with business lending last year recording its strongest growth in more than a decade.

While that is good news for disciplined companies, such access to easy money sounds a potential death knell for SMEs without a proper grasp of cash flow issues. And the expectation of rising interest rates increases the risk on such borrowings.

At Nad's, Sue Ismiel has always been wary of large borrowings. In the early days of expansion into the US, Nad's had to produce 30,000 units of hair-removal gel a day and air freight them to meet demand. It taught Ismiel the value of managing product and cash flows. "I was very, very conscious of the consequences of large borrowing ... My instinct told me to beware – to measure your risks, to make sure that you take calculated risks."

A joint-venture partner in the US proved her best decision, giving Nad's market knowledge and an ability to enter the tough American market without begging to banks. "It was a win-win situation and that didn't put my business in any financial risk."

Ismiel's joint-venture partner has recently retired and the company is now in the unusual situation of having to chase capital to realise global expansion plans. This new phase is testing her nerve, but Ismiel is confident her disciplined approach to cash management will continue to put her in good stead. "I'm always ahead of the game," she says. "I'm the type of person who is always looking at the bottom line for the business."

She urges other business owners to be similarly structured. "You make some wrong choices ... but what you must do is take responsibility." ●

**GRACEFUL SAVING** The Huski complex meant a low land cost outlay

# Top of the world

Two young architects had a huge start and have stayed successful by keeping it simple.

**N**ot many business novices get \$50m to spend on their first big project. For dynamic Melbourne architects Zahava Elenberg and Callum Fraser, winning a Melbourne City Council competition about seven years ago to design the landmark Liberty Tower, an apartment block that dominates the corner of Spencer and Collins streets, proved a stunning launch pad for their careers.

Not out of university at the time, Elenberg now plays down the size of the budget, saying most of the money went back into the building. In any case, she was accustomed to living frugally: "I was a student – I was used to living day to day."

Things have moved quickly for Elenberg since the Liberty Tower deal. The twin towers of Watergate Place in Melbourne's Docklands counts as another of the major projects on which she has



**HIGH STANDARD** The Liberty Tower launched glittering careers

worked. She is also the driving force behind Move-in, an innovative business that specialises in furnishing apartments for developers and investors, and ZACAMOCO, a property development company. Adding to the résumé, she was named national Telstra Young Business Woman of the Year in 2003.

Yet, in a capital-conscious world that demands clear strategies and scenario planning, Elenberg takes a more spontaneous approach than most to business and cash controls. "I've never written a business plan. I've never sat down and thought, 'How am I going to track this and make it work over five years?' I'm quite spontaneous and do things by instinct."

She adds: "There's merit in all ways of doing things."

Elenberg concedes she and husband Fraser have hired good accountants. And they made an early decision to reinvest money back into their architectural firm, Elenberg Fraser. "You can either blow it or make something of it," she says. "And we didn't want to be one-hit wonders with one project and one opportunity."

They have also resisted the temptation to over-hire or shift into a huge office with huge overheads. As the firm has grown, they have been conscious of keeping costs appropriate for the size of the business.

"I think when businesses happen organically, there's a way of building the cash flow into it and working with what you've got," Elenberg says.

Part of their success is built on finding innovative ways to cut down on project expenses. The firm has won acclaim for Huski, a boutique apartment complex in the heart of Falls Creek Alpine Resort that sits on Crown land. The leasehold arrangement means Elenberg Fraser did not have to fork out huge amounts in land costs.

"There are clever and innovative ways of doing the big projects without the overheads," Elenberg says. "You've always got to have a sense of invention, and I think people often think that the financial aspects of that aren't subject to the same creative processes."

