

The 7 Deadly



Cash Flow Sins

A strategic guide to optimising your business
using the numbers that count

**This book has the
power to improve your
cashflow and your
profit... if you let it!**



From the Author

Hi there,

Well done on getting to page one of this “how to” guide. It is 100% true that successful business owners know their numbers – and using this book will help you to do exactly that.

I've got a host of other resources I'd love to share with you starting with my podcast – **Better in Business** with Jeannie.

Click on these to start streaming



Now, a bit about me...

I'm an award winning Strategic Bookkeeper. A Strategic Bookkeeper doesn't just prepare your numbers, she investigates them using this system.



While traditional Bookkeeping tends to feel like a cost, Strategic Bookkeeping is truly an investment because it provides a return greater than the fee.

Strategic Bookkeeping seeks to help you achieve these 3 things

1

*Optimal business performance
(which is the profit and cash)*

2

*Prosperity (which is being time rich,
purpose and legacy)*

3

*Peace of mind (being clear and in control,
no nasty surprises and sleeping at night)*

The profit and cash has to come first because they're like oxygen for your business. Without oxygen, your business will suffocate – it'll sink.

Which is why I've written this book. So you can learn what you need to know and then take action to sure up your cash flow.

*Please do tune into my podcast for more ways to do better in business.
And, if you'd like to explore working with me head on to
www.jeanniesavage.com/workwithjeannie*

“Businesses fail all the time. 80% of them actually “close up shop” within 5 years. That stat may not surprise you, in fact, some of you may already be a bit numb to figures like that. What you might find surprising is one of the leading reasons for this. It’s poor cash flow management, plain and simple.”

That explanation surprises a lot of people because we’re so used to externalising: oh the economy, or business confidence, the market, or supply chain issues. Instead, we find, again and again, simple reasons why people’s blood, sweat and tears so often ends in yet more tears. It’s a crime. Actually, *it’s a sin*. And there are 7 of them to recognise, understand and proactively avoid, using Bookkeeping Numbers 101 and Strategic Bookkeeping for optimal financial results that keep you on the straight and profitable.

I felt inspired, nope, actually, I felt compelled to write this book because I believe there's value and power in providing business owners like you, the ability to secure more time, money and freedom. The difference between this book and literally thousands of others on financial freedom, lifestyle and business success is that I'm going to tell you about the 7 Deadly Cashflow Sins that are destroying businesses like yours, every single day. You'll find out:

- *Who* falls prey to these sins
- *What* they are exactly
- *When* they tend to rear their ugly heads
- *Why* we commit them
- *How* to avoid them using actionable steps to improve current cash flow issues.

Unfortunately, the consequences of committing these cash flow sins can be catastrophic, affecting whole families. It's a case of small misconceptions and poor habits, wreaking havoc on businesses and livelihoods that should be absolutely flourishing. But there are two inescapable facts we all must accept before moving forward.

You can't fire a cannon out of a rowboat, or safely drive a car on the freeway while only looking out the back window.

But that's what many business owners are doing and they are paying the price. Briefly, firing out busy strategies, sales tactics and people management philosophies is not going to help your business if it is not built on the solid foundations of 100% up-to-date books. That's the first thing. And if you're not doing this, updating your books is your first and most important task.

If you are relying on numbers that are months or even years old (yup, I 've seen it happen) then, to my second point...

you are speeding down a highway trying to keep your business on the road by staring intently out the back window.

Lunacy. And very dangerous!

One of the easiest ways to take action on these two points and then reap the rewards is to...

***Fire your bookkeeper!
And hire a strategic bookkeeper.***

We'll get into this in more depth as we examine the cashflow sins but for now, understand that while a bookkeeper is a cost, a strategic bookkeeper is an investment that will pay dividends.

And by dividends, I mean that your returns will exceed the cost of your strategic bookkeeper.

Look, I know there's no such thing as free money but if there was, a strategic bookkeeper could show you where it is. One reason for this is that you would become so familiar with your cash flow days that, just like big businesses with national and international reach and their respective managers, you would come to know what *each* day will mean to your business ahead of time. Did you know that improving your cash flow position by just one, two or three days can literally mean the difference between staying in business and going out of business? It's true!

So, just because you're a small business, there's no reason you can't operate like a big business when it comes to cash flow.

I've hammered this point because its importance simply cannot be understated. Successful business owners know this, which is why they prioritise:



Education. Smart business owners educate themselves on the importance of numbers and how to make them work for the business and their future.

Action. With knowledge and wisdom comes the power to take decisive and effective action based on that solid foundation of up-to-date numbers.

Accountability. Successful people not only hold themselves to account, but they welcome the opportunity to be held to account by others.

I'd like you to take these three priorities to heart and again, ask yourself, **"are my books 100% up-to-date as of last week?"** If they are not, take action!

Achieve success with these 3 critical steps

Defining actual success for the purpose of this book is simple. You and your business will thrive instead of merely survive and you will enjoy your business instead of merely enduring it. Here's what that looks like:

Quick wins. Yes, you'll enjoy these but they are the pay-off for understanding your numbers and course correcting. As a result there'll be some **more "cash in the bank"**. Great. But business is about the long game.

Transformational change. This includes cash flow. Remember, it's a lack of cash flow that sends businesses broke. But also keep in mind that successful transformations are a 12-month journey built on an ongoing commitment to ingrained habits and strategically-conceived systems and processes.



And a **"Thriving
Lifestyle Business"**

So, the three steps that you need to take are:

1. *Numbers 101* – **know your numbers**, get up-to-date and stay up-to-date. If you have fallen behind, we can help, so feel free to get in touch. The important thing is to take action – now!



2. *Learning* – the idea isn't for you to get up-to-date and stay bewildered, aimless or confused. You'll need to **understand what's going on in your business**. Remember the attributes of smart and successful business people I touched on.
3. *Strategy* – this is where we get to confront your past to **shape your future in business**, and we're going to address, understand and guide you away from committing the 7 Deadly Cashflow Sins in the process.

Let's get started!

How to profit from confronting your 7 Deadly Cash Flow Sins

If I had to point the finger at just one culprit responsible for failures in business, it would be cash flow. Now I've already pointed out one of the main reasons for cash flow issues - poor management - but again (for the umpteenth time) it all comes back to knowing your *current* numbers. And that knowledge has to become and remain a priority.

In this section, you're going to learn that because many businesses don't understand the numbers, they fall prey to cash flow issues – even the profitable ones. It's all because they are all too often:

- behind on the books
- using poor, redundant or outdated systems

- run on their bank account and perceived cash positions, which is a lot like running a business on “feel” or emotions (e.g. I feel like things are going well, I feel like we’re turning things around, I feel like... wait what’s happening?!”)

These three factors alone, lead to a higher risk of cash flow debt, which is a murderer of both new and established businesses. Okay, that was dramatic, but so is suddenly realising that your business is going under. Harsh but true.

Let’s avoid all that by facing up to these cash flow sins.

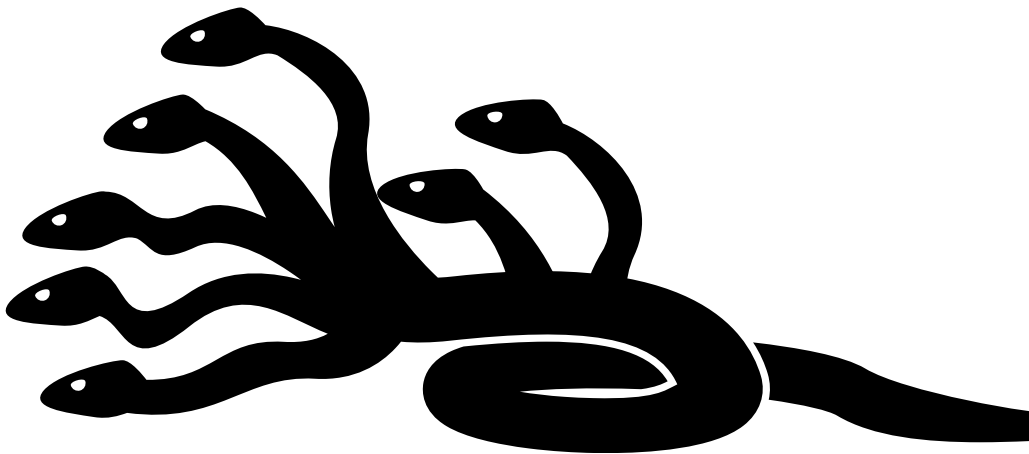
S.E.R.P.I.C.O. made me do it!

Acronyms are helpful. They make important, critical-to-success lists, guides and instructions easier to remember so that they're easier to implement. S.E.R.P.I.C.O. serves that purpose beautifully. Not only is Serpico a 1970s, Al Pacino classic about a New York detective uncovering corruption on the force, it also reminds us of the 7 Deadly Cash Flow Sins that are corrupting our ability to turn a profit.

- **Sales** – myths, mismanagement and how to make the most of them
- **Expenses** – and why turning your back on them can lead to disaster
- **Receivables** – Here's how to avoid profit bleeds, bad debts and the cost of chasing payments
- **Payables** – avoiding cash flow gaps is critical, here are some critical steps to implement

- **I**nventory – “stock turns” turn profits and I’ll talk terms, deposits and cash flow
- **C**ash – spoiler: cash in bank does not equal profit and other facts you’ll need to know
- **O**wner drawings – Business vs personal: what that means for your accounts and cash flow

There’s one of the 7 Deadly Cash Flow Sins attached to each section, and together, they have put many businesses into jeopardy. By understanding them, you’re on your way to embracing best practice and the rewards that come with it.



1. You focus solely on your SALES figures

Sales – that shiny glittery thing we can't seem to take our eyes off – focusing on sales *alone* is dangerous!



Business owners tend to focus on sales and sales figures. When they talk about their businesses or how they are going, the sales figures dominate the discussion. It's the first thing out of their mouths and the last thing they think about at the end of the day. But at the end of the day, they've committed the sin of treating sales like they are the most important aspect of the business.

This is a great place bust a myth that has been ruining businesses for far too long.

- **MYTH** *If I make more sales, I'll make more profit*
- **FACT** *If I make more sales, I'll make more sales*

Look at that again. The devil's in the details. You really need to focus on profit, that's the portion you can spend, reinvest and enjoy.

The sin of idolising sales to the exclusion of all else will cause your business some pain if you're self-employed with no staff, but that pain is amplified exponentially as soon as

your business takes on that first staff member. So the more complex your business, the more intense the pain and the more complex the issues... if you are focusing *purely on sales*.

Solution?

Systemise sales for success

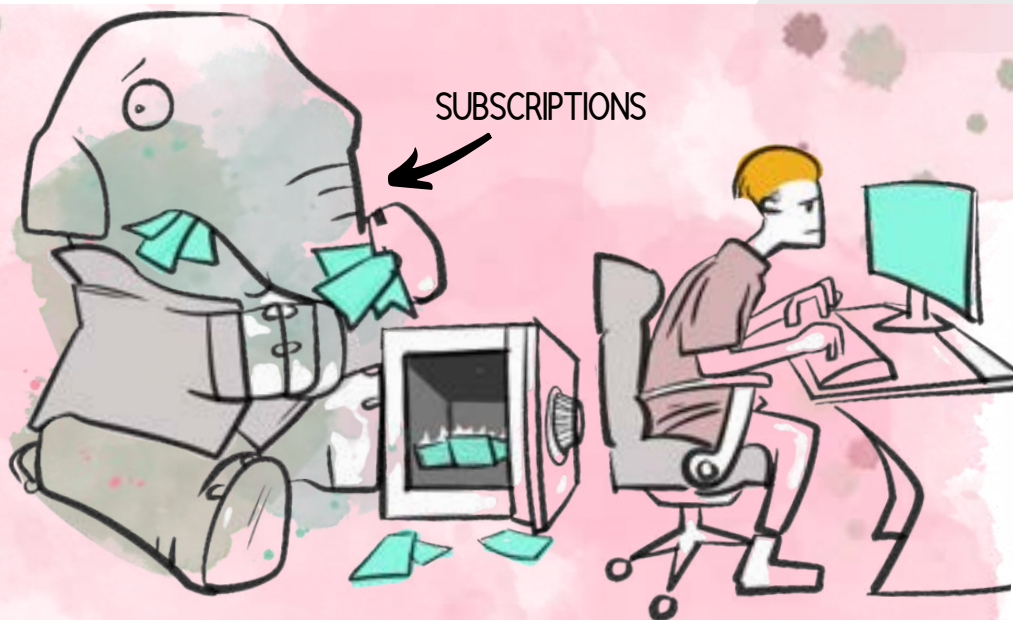
All I want to say to you here is, “look ahead”. Where do you want your business to go, what should it look like and what do you *really* want to do?” Thinking about your sales like this will provide solutions for you and your clients. As long as you are presenting and pricing your products as a solution to your clients’ problem, there will be value in the sale. However, you may still fall into the trap of making sales and patting yourself on the back. You need to go further:

- ***Establish a pricing strategy - think hard about your cost of sales and your overheads which include staff***
- ***Use industry benchmarks to help establish pricing parameters and use “the rule of thirds” to help you...***
- ***Price for profit and cash, not simply cover immediate costs***

This is how you start to systemise your sales. Sales are necessary but are also unnecessarily distracting when you're trying to keep your eyes on the prize – *ongoing profit*. Stay focused!

2. Ignoring EXPENSES

Expenses – ignoring the elephant (eating up your profits) in the room is a crime... and our second sin



Would you like more cash at the bank and to increase your profit? Okay, let's look at your expenses – on a monthly basis. I don't mean look at your monthly expenses every 6-12 months. No, I mean look over your expenditure *every single month*, preferably with your strategic bookkeeper. Look at them critically and *strategically*.

Let's be really clear on this. The objective is not to take an axe to your expenses and swing wildly until there's a 30% reduction. You could do that, but it wouldn't be strategic nor smart – and there would be unforeseen consequences. It's far better to review your P&L monthly with the specific goal in mind to:

- **Reduce** your cost of sales and overheads
- **Optimise** profit and cash
- **Stay in control** of your subscriptions

That last one is important, we need to stay in control of our subscriptions. Let's take a closer look at how and why they can erode your profits.



SUBSCRIPTIONS



Subscriptions, the gift that keeps on taking – if you *don't* keep a close eye on them

A great tip here is to focus on how the product or service you're subscribing to saves you time, effort and/or money. This leads to an important leading question: do I have another subscription that already does that? For example, if I pay for Dropbox for business as well as Google's Gsuite every month, am I paying for something I don't need? Finally, ask yourself how long that subscription will keep delivering value to your business. When the subscription is no longer valuable to your business, unsubscribe.

Did you know, there are businesses out there that have:

- Thousands of dollars per year tied up in subscriptions that may or may not be helping their business

- No idea that their (possibly redundant) subscriptions auto-renew
- Forgotten about some subscriptions that are literally just sitting there on the books, eating into their profits – every single month
- Increased exposure to cybercrime, as any direct debit, apps or accesses that connect your business account(s) to the IoT (internet of things) without you vigilantly monitoring them is a risk these days – and a potentially expensive one at that.

Yes, wasting money on subs has got to stop, but it won't unless someone takes a close look, asks questions and takes action. That someone needs to be you.

Diagnosing that pain in your expenditure

The fact is that the pain caused by unmonitored (and therefore out-of-control) expenditure, which increases

"cost of sales as a percentage of turnover", usually comes from a few key areas. However, if you hardly ever look at your numbers, the pain may be coming from more than just one of these areas:

- Job costs - think wages and materials
- Other wages
- Rent - which should be a specific percentage for your industry
- Marketing

Now the above list is just for a service business. In hospitality, the three areas to look at would be *food, wages and rent*.

The remedy is to align the targets for each of these areas to an effective strategy. Then, make and execute a plan to get your numbers back on track. If you commit to doing this and check in with your strategic bookkeeper for an hour over the numbers every month, there will be good news, and then *more good news*.

The good news is that you can expect to enjoy some big wins after the very first session. More good news: as a result of subsequent sessions, you'll find that the smaller **wins keep on coming**.

Finally, you cannot improve what you are not measuring, and you can't measure something effectively that you have been ignoring for months and months on end. Turn this sin into a profit increase by booking yourself in with a strategic bookkeeper asap!

3. RECEIVABLES – Letting customers pay you only *after* you paid your staff and suppliers

Receivables – what comes first, the payment, or the product/service? Getting this wrong is a sin!

“WE THINK IT MAKES MORE SENSE IF WE ALL JUST PAY
YOU *ONCE* WE GET TO OUR DESTINATION.”



The correct answer is to have your customers or clients pay you *first*, before you have to pay your staff, expenses and so on. Unless you are a bank, you should not be lending your customers money – which is exactly what you are doing if you've set yourself up to provide that product or service to your customer... and then have to wait... and wait to get paid.

Simply put, the longer you allow your customers to delay payment after you've provided a product or service, the more strain and pain your business suffers because your cash is flowing in the wrong direction. The consequence is that your business is going days or even weeks without cash, even though you've held up your end of the bargain. This is cash flow pressure. And it hurts.

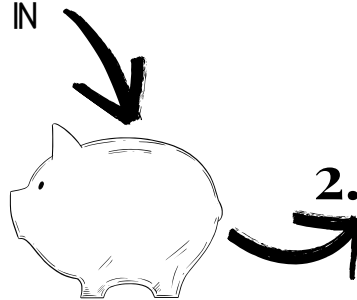
The problem is that sometimes, as business owners, we do this to ourselves.

As entrepreneurs we're looking to make money, build a lifestyle, enjoy life by exploiting a talent or an idea or both, that we have.

Unfortunately, our enthusiasm, encouragement, a blinding vision or raging ambition can distract us from proper planning and systems. The result is that if you don't have a working capital at the ready, or your payment terms are too generous, your dream will effectively be over before it ever really gets started i.e. within the first two years. Sound familiar?

MAKE SURE THE CASH FLOWS IN. BEFORE IT FLOWS OUT.

1. CASH FLOW IN



2. CASH FLOW OUT

We've got a bleeder!

What is profit bleeding and how to stop it.

The twin threats of collecting money from customers after you pay your staff, your suppliers, your loans and your obligations, and bleeding profits by pouring time and energy into chasing unpaid invoices is how I define "going broke doing business". I'm going to oversimplify this for effect because it's that important. If you haven't closed the gap between receiving payment and paying your expenses, every sale is doing you harm because it's creating cash flow pressure. Every sale.

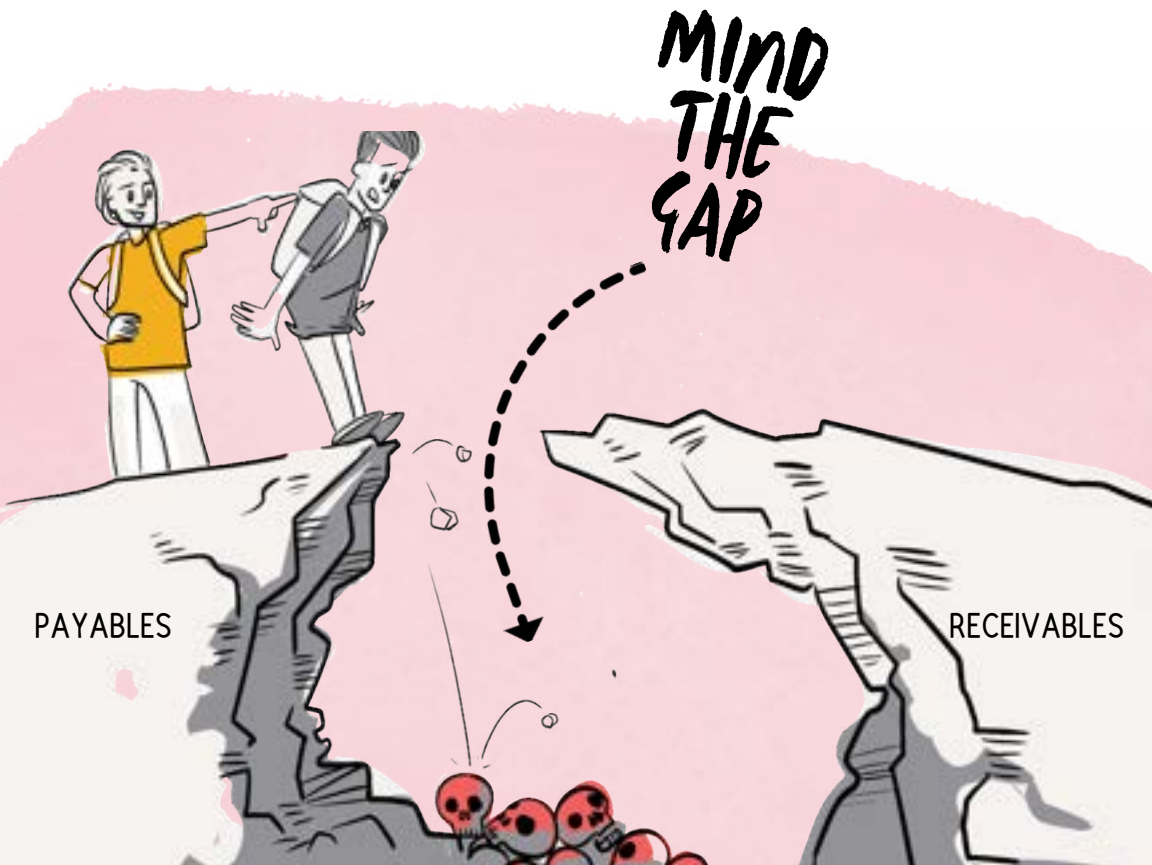
Bad debts. There can be no confusion here. These are the debts that bleed your business off its profits. Actually, this is often referred to as profit leakage because recovering debts (chasing, calling, emailing, confirming, reconfirming, following up) takes up your precious time or that of your staff. If time is money (and it is), that's a lot of money or profit that is leaking from your business.

I think we can agree though that profit is the lifeblood of your business which is why I call it a profit bleed. If your laundry sink has a leak, it's an annoyance and you'll get it fixed soon...ish. But if you have a bleed, that needs immediate attention. It can be a matter of life or death – for your business.

Do the right thing and address it today.

4. Ignoring the PAYABLES gap between receiving money and paying out money

Payables – Mind the gap or you could fall into another costly cash flow sin



This sin is related to the previous one so I'm going to keep it brief. If you are paying out money for bills, wages, tax obligations and loan repayments *before* you are receiving payments from your customers, you are headed for trouble. You are increasing cash flow pressure by extending the gap between paying out money and receiving payment – ouch.

Closing the gap with a best practice payroll calendar, optimised for cash flow

A bit of mouthful, but well and truly worth the effort. In fact, I use it in my own business to help ensure my cash is flowing in the right direction to help protect my profits. There are just two steps.

- Pay your staff and subcontractors fortnightly, not weekly
- Make their pay day approximately four days after the pay calendar ends

Now, my team has a payroll calendar which runs from Monday to Sunday over a fortnight, and their pay day is the Thursday after the calendar closes. This makes it a smart payroll system that actually aids cash flow.

These measures seem small when you first look at them, but they make a huge difference in the long run. After all, if a business runs out of cash (for any reason), it will go broke even if it's making a profit. Sad but true, and that's the price for committing the sin of poor payables management.

5. Holding stock **INVENTORY** that hasn't sold, and yet you've already paid for (yikes!)

Inventory – paying for dead stock on shelf
will kill your business, so keep it moving
or pay the price

"WE NEED TO GET RID OF OBSOLETE INVENTORY AND WRITE IT OFF."



If you are in the business of selling stock, then this is the sin you'll want to pay particular attention to and make sure you do not succumb to its wiles. Stock that sit on shelves unsold is referred to across a number of business sectors as "dead stock". That's a misnomer. It's not dead, it's alive – and *it's eating into your profits*, so it has to be sold very, very quickly (or turned over, hence turnover and "stock turns" shortened to "turns"), or be paid for by your customers, in full, *before* you pay for it. Keeping stock on shelf that *you* have paid for – instead of your customers – will kill your business.

Here's how to avoid a tragedy.

- **Review** your stock turn systems. Really dig in and understand what will work best for your business. Even if everything was flowing perfectly, your systems still bear examination – *every month*.

- **Negotiate** better payment terms with your suppliers. Terms that favour your sales cycle, preferably allowing you time to turnover stock *before* you need to pay for it.
- **Set** larger deposits or ask for 100% of the money *upfront* from your customers when they order.

If the prospect of the third point makes you uncomfortable, think about most businesses you deal with on a day-to-day basis: supermarkets, fitness centres, entertainment venues. They all ask for full payment at the time of ordering *before* you receive what you're paying for.

Tip:

Don't try to guess at your customers' reaction to prepayment. Simply set your systems up in a way that benefits your business. That's how to turn the tide and get your cash flowing in the right direction.

6. Running your business based on CASH in bank

Cash in bank – is *not* a reflection of profit,
don't treat it as such



Your business bank account is a big bowl of cash, but it's **not** *all yours*. You can't pretend it is and you most certainly should not act as if it is by making decisions based on the raw number you see there. There are a number of entities that are ahead of you in line for that money and your profits are right at the back of the queue. Before that money becomes profit, you'll need to subtract tax and employee obligations like superannuation, benefits, loan repayments. In fact, the raw number you know as your balance, has very little to do with your profit. Actually, nothing to do with it.

The sin of running your business on your bank account is perhaps the deadliest of them all because business owners never seem to see its consequences coming until it's all too late. This sin leads to debt and distress and it also explains how business owners end up with terrible tax debts. This sin is in fact, the fast track to bankruptcy.

Whether or not you have committed the sin of running your business based on your bank balance, please go back and review the three critical steps you must take to protect your cash flow.

Here's a reminder:

1.Numbers 101 – you need to have up-to-date, accurate, books and know your numbers.

2.Learning – is the key. If you don't understand what your numbers mean for your business, please ask. You can get in contact with us to learn more and let us help you get your business back on track.

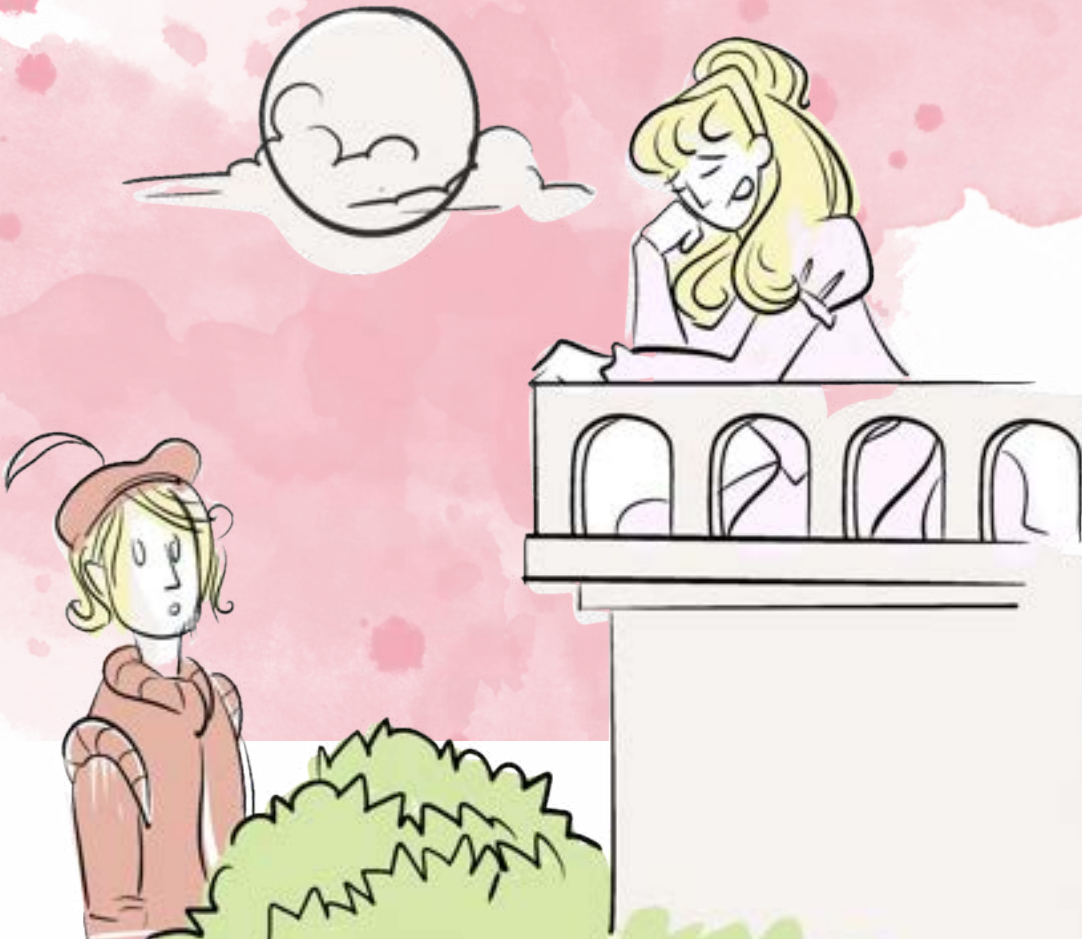
3.Strategy – this is how we bring you from your current state to your chosen destination.

Finally, take action by asking yourself if you have committed this cash flow sin, and if you have, let's get this sorted out while we can.

7. Allowing OWNER DRAWINGS to exceed profit

Owner drawings – business and personal account, you've got to keep them *separated*

"YOU DO KNOW THAT THIS DOESN'T END WELL
FOR US IF WE GOT TOGETHER, RIGHT?"



Too often, business owners are drawing out more money than they have available to them in the bank. The key words are *"available to them."*

They should be drawing from their profits, but because there are some very damaging misconceptions around what is profit and what is merely cash in bank, some *very expensive* mistakes are being made.

**Mistakes that cost the owner,
cost the business, and can cost
livelihoods as well.**

Again, you might look at your balance and feel like there's plenty there for you, it's been an exceptional month or quarter, you deserve it, *why not?*

Just remember, the figure you see there is not profit for the taking. It's profit:

- *minus* loan repayments
- *minus* employee leave entitlements which are actually hidden and don't appear on the profit and loss or the balance sheet – that's a scary realisation to get your head around.
- *minus* other factors, such as assets purchased.

4 small tips followed by a big serve of solid advice to keep you from committing this dangerous sin

It sounds simple but it still pays to remind yourself that:

1.Owner drawings don't show up on your P&L.

2.You must keep your business account solely for business. Business and personal doesn't mix here.

3.Cash reserves are needed in your bank account for loans, tax, staff entitlements, PAYG and GST.

4.Drawings need to be less than your profits.

And now for some enduring advice: look at your numbers every month, scrutinise your profit and loss and balance sheet, and work to understand it. Then ask yourself the following questions:

Am I drawing out more money to live on, in spend, than there is in net profit on my profit and loss?

If the answer is no, then you've done the BAM (bare ass minimum) to avoid this deadly sin. You're on your way. If the answer is yes, then you are likely running up debt (think ATO, employee obligations) and you may end up in financial distress.

So what action should you take if you are over drawing?

It would be remiss of me not to strongly recommend that you reach out to someone for help to come up with a plan of action to stop overdrawng. Critical.

I'm here to help

The way my team and I help clients who have been caught up in this sin is by beginning with some “discovery”. That means we'll:

- **Work** to understand your current circumstances - where you are now, how you got there and so on.
- **Find out** where you want to be
- **Identify** what actions you need to take to get you to your destination

Ultimately this is about creating a powerful plan that draws you away from the harmful habits that put your business in jeopardy, and embedding habits that'll ensure there's no looking back.

***Remember,
"Those that don't learn from
the past are doomed to repeat it."***

It's time to break the cycle and forge a truly profitable path. If you would like to benefit from a complimentary planning and strategy session to help realise your business goals through the power of strategic bookkeeping, you can secure an appointment [here](#).

I don't use the word cathartic all that much but let me just say, it feels good to shine a light on these **7 Deadly Cash Flow Sins** and how to avoid them – for your own good and the good of your business.

Jeannie Savage



XERO Awardee

Xero Australia acknowledges and celebrates the hard work and achievements of Cloud 9 Strategic. This award highlights innovation, leadership and creativity, recognising those who led positive changes despite the turbulence of COVID-19.



WFA Awardee

Jeannie Savage, Cloud 9 Strategic's Founder and CEO, has been honored as a Finalist in **The Women in Finance Awards**. This is the benchmark for excellence celebrating and recognising the outstanding women influencing the Australian finance industry.

Jeannie Savage

