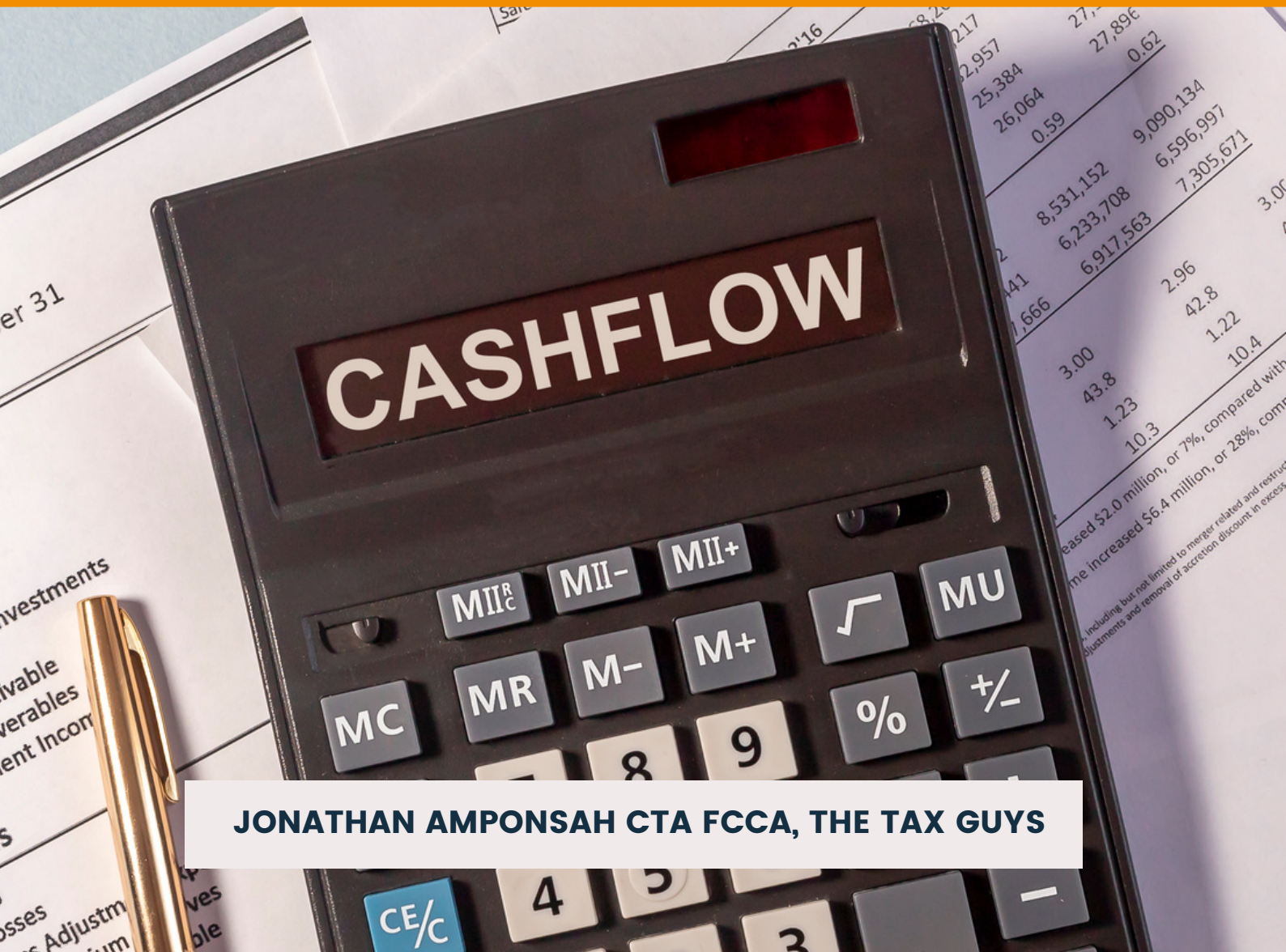


ATTENTION E-COMMERCE AND RETAILERS...

HOW TO HANDLE CASHFLOW PROBLEMS AND AVOID THIS £16,898 MISTAKE



JONATHAN AMPONSAH CTA FCCA, THE TAX GUYS

Despite what all the Gurus and power sellers tell you about making money in your PJs and retiring early with a yacht, the reality is that your e-commerce business is a retail business. Margins are very tight, competition is high and cash is a constant worry.

Here's a situation to avoid at all costs in your e-commerce and retail business.

An e-commerce trader had a bumper quarter from Oct to December. They used the cash to order more stock, paid themselves and paid off some creditors. No plan was made to put aside cash for VAT. Come February the following year, they were staring at a £16,898 VAT bill. Because January and February were low sales month, they had all this stock ordered sitting there, no cash to pay the VAT and panic set in. This is all too common and careful planning and use of the cash could have avoided all this.

Here's another scenario. Let's say its mid-month. You've checked your business bank balance and a slight panic has set in.

The balance is lower than expected despite the mental cash flow forecast you put together.

Luckily despite the pandemic, customers are ordering and paying you through the till and the forth nightly cash from Amazon is coming in. But perhaps you had to pay a tax bill last minute, you've had some the additional expenses in connection with the pandemic, stock is taking longer to arrive or the extra equipment are all taking their toll on your cash.

You might not meet all month end expenses including perhaps some payroll payments.

What do you do?

HERE ARE 8 STEPS TO AVOID PANIC AND GET YOUR CASH INFLOW.



Confirm The Shortfall

The first step to avoid panic is to find out how much extra cash you will need in the bank account to cover payroll and other essential outgoings. Once you've ascertain that number, consider whether you have personal funds to loan to the business or whether you need to look at other short term sources of finance. Perhaps a Covid Recovery Loan? And review if you're upto date with the current government support grants.

At this stage, it's all about having options but not necessarily to use them. We simply want to remove the panic and get you to work through the steps below.

If you end up having to lend cash to your business, please do formalise this and charge the company interest. There is a tax benefit because part of this interest can be tax free.

Calculate Your Cash Conversion Cycle

Find out how long it takes from ordering stock to seeing the cash in your bank account. You will need to work with your accountant or if your online store provides this statistic, then do a sensibleness check on it by looking at the days your cash is tied up in ordering and the days the actual sales is made. If this number is say 40 days. What steps can you take to reduce this number? Make a note of this for the purpose of step 7 below.

Discuss, Delay and Defer Payments

Pause most of your supplier invoice payments and pick up the phone, be honest and re-negotiate a better payment terms. Let them know that you are committed to paying them but can they grant you extra days or weeks after month end? For some suppliers, you may need to offer something back to maintain the goodwill in relationship including a promise to pay them an interest on the balance outstanding or 15 days early on their next invoice.

If you have any tax payments (VAT and PAYE in particular) coming up, then ring HMRC or sign upto to their time to pay service online straight away to give you a breathing space.

Debtors or Margins

If you have any debtors, then get hold of the debtors list and pick up the phone.

Most probably you don't have debtors so you will need to concentrate on your margins and pricing.

After taking into account all the amazon or selling charges, pay per clicks, import duties and all other hidden direct costs of sales, what is your true gross profit margin? And what is your net profit margin? Is that sustainable? You will find that very often this is the root cause of your cashflow problems. There are things you can do to fix this.. Please read our other report on profit mistakes most e-commerce and retailers make for more insight and solutions. Then again make a note of what you're going to do and include it in step 7 below.

30 – 60 day Cashflow Forecast

Put together a very basic short term cashflow forecast for the next 30 to 60 days. Avoid spending long time on complicated spreadsheet which might be out of date by the time you're done and which may consume resources that should be deployed on getting cash in. So simply start with the cash at bank now, add any possible short term finance (step 1 above) and add any cash inflows to the business from steps 2 to 5 above.

Cash Acceleration Action Plan

It's very important to then document an action plan from the above and put a due date on them. We've had clients increase their operating cash flow within weeks of working through the above. A key part of their success is the focus on this Cash Acceleration Action Plan, which documents all the ideas, who is going to do what, by when and the likely impact on cash.

Get Additional Help

There are other key drivers of cash in your Retail business beyond the immediate steps outlined above. And depending on your situation, you may need a combination of Cash control, Profit protection and a Reduction in costs strategies. And if you find yourself in regular cashflow problems, then a further approach including pricing, margins, efficiencies and business model review would be required. Either work closely with your accountant or seek help from a profit and cash specialist.

Handling cashflow problems goes way beyond the traditional cashflow forecast approach.



Get Hold Of Your Cashflow Statement

The next step is to find out where the money went. And you will get the answer from a little used financial statement called Cashflow Statement (not the Cashflow Forecast). This is a very useful document, usually one page with about 7-8 line items. It reconciles your previous cash balance to your current cash position and tells you where the funds went. It may well be that you did not make enough profits that month and this document will tell you that. Or perhaps cash is tied up in stock.

You simply work through the line items on this document (with the help of your accountant) and come up with ways to get cash into the business within 2-3 weeks. Make a note of action plan for the purpose of step 7 below.



ABOUT THE AUTHOR

Jonathan Amponsah CTA FCCA is an award-winning chartered tax adviser and accountant who has advised many clients over the last decade on tax.

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