5 powerful cash flow tools most Australian SMEs are missing out on

[In May 2024, I ran a webinar on how Australian SMEs can better finance their business - reducing their stress and increasing their results. Talking about the webinar has raised lots of interest - so I turned the content into this paper.]

Cash flow is the number one issue that just about every small business I meet is stressed by (closely followed by staffing issues and government regulation).

The problem most people **think** that I solve is cash flow – but it's NOT. I solve the unrecognised problem behind the cash flow problem – the deeper root cause.

Solving that problem **for the long term** frees small businesses to grow and prosper for the long term – despite what the world throws at them.

Cash flow and working capital

It's really important to understand what cash flow is (and isn't) – and why it becomes a major issue for so many small businesses. When you understand the underlying cause of cash flow problems then you can fix that cause.

Cash flow shortages are a symptom – and a highly painful, stressful symptom – of a deeper business issue. They're like the loose teeth sailors of old suffered from when they had scurvy. Scurvy can't be solved by better dental care, because its cause is an underlying nutrition deficiency – not enough Vitamin C. (There's a reason English sailors were called "limeys".)

Like scurvy, SME cash flow problems are caused by a deficiency – a lack of working capital. And like scurvy – when you treat the underlying deficiency then you solve a whole range of symptomatic problems.

You don't get told much about working capital when you start a small business. You ALSO don't get told that successfully growing your business will make your working capital and cash flow problems worse – but it will.

So here's Working Capital 101

1. Your business has a range of **assets** – including your outstanding Debtors.
2. Your business has a range of **liabilities** – including your outstanding Accounts Payable.
3. Your business has a variable amount of available **Working Capital** (the difference between your Asset and your Liabilities) that it can access to operate with at any point in time.
4. The **Cash Gap** is the timing difference between when you pay your supplier and when your customer pays you. The cash gap can eat a big hole in your available working capital if you don't have the financing tools to manage it.
5. **Liquidity** is what you have when you have enough working capital available to run your business your way.
6. The **Cash Trap** is where you get stuck if your business doesn't have enough available working capital.
7. If your business grows, then your Cash Gap also grows – **AND well ahead of your income.** You're paying for more inputs – but the amount of time you have to wait to get paid doesn't change. The faster you grow, the bigger your cash gap gets and the more stress it creates in your business.
8. There are two well-established financing tools that can free up working capital – but most SMEs don't know what they are or how powerful they can be:
    a. **Debtor (or Invoice) Finance** (where you borrow based on your future invoices); and
    b. **Trade Finance** (where you borrow based on your recent purchases).
9. When you install a sound, customised **Working Capital Strategy** then you can escape the Cash Trap.

Even "highly profitable" businesses can fall into the Cash Trap – because an annual profit is a point-in-time number that doesn't reflect either:

1. The size of your month-to-month cash gap; or
2. The high-stress corners you have to cut in order to try and cope with it.

You can read more about the Cash Gap, the Cash Trap, Debtor/Invoice Finance and Trade Finance solutions in my Blog and on my Results page.

Five top financing tools and their value propositions

Let's get down and dirty with specifics – and explore innovative, responsive finance and some of the new tools that I think are very useful for SMEs today. They're well worth evaluating as you develop your business's Working Capital Strategy.

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1. Earlypay Invoice Financing

Invoice Finance allows your business to access cash that would otherwise be tied up in unpaid customer invoices. Instead of waiting for customers to pay, Earlypay advances up to 85% of the invoice value upfront. This immediate access to funds can help manage your cash flow and clear ATO debt.

Think of Invoice Finance as a flexible line of credit that you can tap into whenever needed. Unlike a term business loan, you only pay interest on the amount you draw down, not on a lump sum.

This solution is perfect for B2B businesses. For example, one of my clients supplies medical consumables to hospitals – where payment terms are typically 30 days from receipt of goods. So they had to order products, pay their own suppliers, receipt it, store it, and deliver to the hospital when ordered THEN wait 30 days to be paid.

With Earlypay, they no longer have to wait for the hospital to pay their invoices. Invoice Finance bridges the cash gap and keeps their operations running smoothly.

2. Trade finance – no longer just for importers

Whether you're purchasing products overseas or right here in Australia, Trade Finance provides the funding to pay suppliers upfront, so you don't have to dip into your own working capital.

When used alongside Invoice Finance, Trade Finance optimises your cash flow, enabling businesses to meet tax obligations promptly and effectively.

There are many brands of Trade Finance now available – the key here is that an increasing number are **now available to SMEs who purchase locally**.

Trade Finance is proving particularly beneficial at the moment in the construction industry – because builders often need to pay for supplies long before quantity surveyors sign off on payments for completed work. With Trade Finance, you can bridge that gap and keep your projects moving smoothly.

3. TP24 – even smarter debtor finance

There's a product called TP 24 or Trade Plus 24 – which is a new way of doing debtor finance.

One of the things with debtor finance is that – particularly with older tools – the implementation can be a little complex. You have to run shadow ledgers and you have to manage a little bit more of a paper trail.

Trade Plus 24 simplifies a lot of these issues because it's built by one of the new FinTechs and it plugs into your accounting system – be it Xero or MYOB – and is able to read the debtors you have at any given time.

So for example, let's say you've got $500,000 worth of debtors. (It can be as little as $200,000.) Trade Plus 24 monitors those debtors and can see in your accounting system on a daily basis what your current debtors are and how much money you're owed.

They will lend you a percentage – and often 80% of that value – in the form of an overdraft type facility.

Trade Plus 24 will be sitting there monitoring what's happening with your debtors – and at any time you can draw down up to 80% of that value. WITHOUT ongoing loan applications, approvals, security requirements or invasive personal questions.

It's a very easy and flexible facility and operates like a traditional overdraft – when you don't need it, you don't draw down any money and you don't pay any interest.

Increasingly, businesses today have a good digital accounting system, and with these sorts of tools, it simplifies the implementation and the administration of debtor finance.

Trade Plus 24 is one of my favourite tools at the moment for the right sort of business, because it's not as burdensome as conventional debtor finance. It does have a higher credit criteria to meet, but that's understandable – and the value of what you do with what they lend you can be very real.

4. Luca Pay – simple, accessible trade finance

Luca Plus is the company that provides Luca Pay. Luca Pay is another financing tool that looks at your accounting system and decides how you're trading. They provide trade credit for your purchases – but they provide trade credit in a simple, easy way, a bit like paying off your credit card.

Firstly, their costs are incredibly reasonable. Let's say you drew down $100,000 in trade credit. The situation would be that you pay back four payments of $25,000 each, and the interest rate is 1% per month.

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So basically, you've got $100,000 and you pay back $25,000 a month plus 1% each month on the original balance ($250* 4 = $1,000). So you've extended your terms for a total of four months while those funds are being paid back, but you have the additional liquidity that Luca plus provides.

Whether it's "costly" depends what you DO with that $100,000 of purchases – accessing bulk buy discounts or EOFY specials.

Luca Pay is a very new, very flexible tool that works on the other side of the cash gap problem, the trade finance side. So it's a very, very effective way to obtain finance and a very simple process to obtain ongoing funds.

5. Shift Payments

Shift Payments is a way of outsourcing your debtors – because you're a business, not not a bank. They lend to your clients so you don't have to.
One of the problems that many small businesses have is they don't have a large credit department or even a way of assessing what the risks are when they provide customers with their money to buy their goods.

Most likely, your business has debtors – and the total owed to you builds up over time. You can use a product like Shift Payments and shift the hassle of managing problem debtors to one of the modern FinTechs.

Don't let the Cash Trap hobble your business

Times are tough – and in many industries with a structural cash gap they can be tougher on your business than they need to be.

If you're not using 21st century business financing tools to optimise your business cash flow, then you could be running VERY hard to stay in place at the moment.

To explore the business financing tools that are helping SMEs navigate the Cash Gap, then book your FREE strategy session today.

(Your smartest competitors may well be doing that already.)

Martin Cattach is the founder of Finance for Business. He's an expert SME Working Capital Strategist.

Finance for Business delivers affordable, flexible SME financing solutions that reduce small business cash flow stress AND increase small business productivity.

Martin's early work in his family's hospitality operation adds understanding and empathy to his decades of finance and business experience.

Martin's experience is that today there are far better ways to finance most SME businesses than to mortgage the family home for a bank loan.

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