

THE 7 CAUSES OF POOR CASHFLOW

1. ACCOUNTS RECEIVABLE PROCESS

A poor accounts receivable process will result in debtor days (the time between billing and banking) being too high. This will stifle your cashflow. There are many strategies to minimise debtor days including tightening your Terms of Trade, offering prompt payment discounts and streamlining your billing process.

2. ACCOUNTS PAYABLE PROCESS

A review of all suppliers' terms may identify ways to improve cashflow and potentially achieve better Terms of Trade. Implementing budgets, streamlining your payments process to maximise prompt payment discounts and avoid late payment penalties is just the start.

3. INVENTORY PROCESS

Carrying stock for too long means full shelves but an empty bank account. This is no different if you're a service provider with work in progress that is yet to be billed. Reviewing your stock ordering systems and stock control processes (to name a few) will identify strategies to ensure cash hits the bank sooner.

4. INAPPROPRIATE DEBT / CAPITAL STRUCTURE

Often significant cashflow and interest charge improvements can be achieved with a regular review of existing debt. Maybe your debt / capital structure could be improved, or perhaps your debt should be consolidated and paid off over a longer term. Maybe you need to review and adjust what you're drawing from the business, or perhaps the business needs a capital injection to fund its growth.

5. OVERHEADS TOO HIGH

Every business should do a thorough review of its overheads each year. Reviewing the effectiveness of your marketing spend, going paperless, putting expense budgets in place and changing your technology platform are some simple ways to reduce overheads.

6. GROSS PROFIT MARGINS TOO LOW

Our gross profit margin is what is left from sales value after variable costs are deducted. There are a large number of strategies that you can implement to increase your margin, such as focusing on rework and wastage, reducing stock shrinkage and improving team productivity, just to name a few.

7. SALES LEVELS TOO LOW

If the current sales levels don't support overheads and other cash demands on the business, then the business is not currently viable. If in high growth mode, a financing plan will be necessary. If not, we need to consider how we will grow sales. To grow sales we need to focus on customer retention, generating leads, improving sales conversion, customer transaction frequency and pricing strategies.

Our Cashflow Management Coaching service has been designed to treat the underlying causes of poor cashflow.

As part of that service, together we'll conduct a thorough review of the above key causes, set goals for improvement, and you'll implement simple strategies to maximise cashflow.