THE SEVEN KEY CAUSES OF

POOR CASHFLOW

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Every business owner knows the importance of cashflow, it is the lifeblood of a business after all, however that does not mean that it is easy to manage.

As a concept Cashflow is fairly simple - money in and money out.

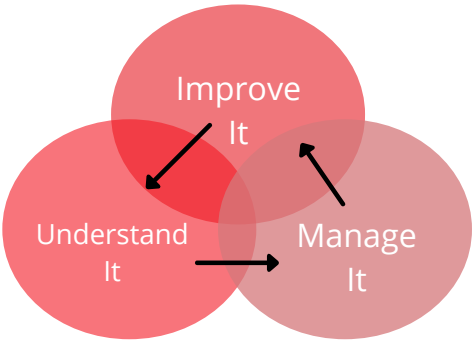
“ Cash is King and Cashflow is the Kingmaker ”

Expanding on the concept a bit further. Cash is money in the bank, and cashflow is the flow of money through the business bank account.

Bring in more than you spend = positive Cashflow.
Spend more than you earn = negative Cashflow.

And for most businesses to be sustainable requires more positive cashflow months than negative ones.

At O'Halloran North Shore Ltd. we believe that good cashflow management is a 3 step process.



- The first step is to understand the basic concepts of cashflow, and how they apply in your business.

- The second step is to review how you currently manage cashflow in your business.

- The third step is to look at how you can improve cashflow in your business.

In business it is very tempting to jump straight to step 3, however if you don't have steps 1 & 2 sorted, all this can do is cause more cashflow headaches in your business. For example if you decided that in order to 'improve' cashflow you had to increase sales, then this can actually create more cashflow pain for you if you don't understand how long your customers take to pay you, and this then results in you having to pay for your stock before you get paid yourself.....

This short e-book looks at the 7 key reasons businesses struggle with poor cashflow and provides some initial ideas on how to improve.

Happy reading.

1

One: 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

Two: 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

Three: 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

Four: 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

Five: 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

Six: 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

Seven: 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.

The team behind O'Halloran North Shore Limited are chartered accountants with a passion for cashflow, aiming to helping business professionals in their businesses.

How We Can Help

Our Cashflow Management Coaching Services and Products have 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.

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