

Cashflow freedom – The 7 causes of poor cashflow



Cash is the lifeblood of any business. Even profitable businesses can and **do** fail because of poor cashflow.

What's important is that you understand your key cashflow drivers. Improving cashflow is often all about changing your processes. Processes such as how you order stock and pay for it, how you bill for your services, and how you make sure you get paid by your customers.

Treating the symptoms of poor cashflow without fixing the underlying causes is time-consuming and frustrating.

Inadequate cashflow is a symptom of management problems in a business, NOT the cause. In order to fix these underlying causes, you need to be willing to make the necessary changes. You'll build a much better and valuable business, as well as improving your cashflow.

While there are many causes of poor cashflow, most of these relate to one or more of the following seven categories.

1. Your cash lockup.

By lockup, we mean the cash that isn't in your bank account because it's work in progress (work you have done but not yet billed for) or you've billed your customer but are waiting for payment.

2. Your accounts payable process.

If you don't have spending budgets in place and aren't taking advantage of the best possible supplier terms, your cashflow will be impacted.

3. Your stock turn.

If stock is moving too slowly, it will take longer to turn the stock you have already paid for into cash.

4. The wrong debt or capital structure.

For example, if your loans are being repaid over too short a term, this will place a big strain on cash reserves.

5. Gross profit margins are too low.

Your gross profit margin is what's left from sales value after variable costs are deducted. If it's too low, it won't be enough to cover fixed expenses and your drawings from the business.

6. Overheads are too high.

Every business should do a thorough review of its overheads each year.

7. Sales levels are too low.

If sales levels don't support cash demands on the business, then sadly, the business is not currently viable.

If you need help streamlining your processes and increasing your cashflow, we can help you identify the best areas to focus on during a Cashflow & Profit Improvement Meeting.

"If I had to run a company on three measures, those measures would be customer satisfaction, employee satisfaction, and cashflow." – Jack Welch