The first cause of poor cashflow – Your cash lockup

There’s a massive difference between profit and cashflow. Profit increases when you create an invoice for work you’ve done or goods you’ve sold; cash increases when you bank the money.

Your lockup equals the cash that isn’t in your bank account because it’s either in work in progress (you’ve done some work but you haven’t yet billed for it) or you have billed your customer but are waiting to be paid.

There are two key processes that need to be improved to reduce the cash that’s stuck in your lockup. Within each of these two processes, there are countless strategies that can be put in place to put more cash in your bank account.

Billing

The earlier you invoice a customer, the faster you’ll get paid. How quickly after delivery of a product or service do you bill? Do you carry significant work in progress because your service spans several weeks or even months? If so, should you consider progress billing on a regular basis?

Collections

You’ve done the work, you’ve billed your customer, now it’s time to get paid.

Do your customers sign off clear Terms of Trade before they do business with you for the first time and are there clear expectations as to when an account is due for payment? Is that 14 days after invoice? 7 days? Shorten up that timeframe and your cash lockup will go down significantly.

How easy do you make it for customers to pay? Your invoices and statements should contain a link to pay immediately online or at least state your bank account details and due date.

Do you provide multiple payment methods to customers? For example, direct debit and credit, credit card, Eftpos, debtor finance (where appropriate). Do you offer a small discount for prompt payment? Customers love discounts.

These are just some of the process changes you can consider to reduce cash lockup. There are dozens more. Talk to us about our Cashflow & Profit Improvement Meeting. We’ll show you what’s possible – in cold hard cash of course!