Here Are Some Little Known Ways to Boost Your Cash Flow

Cash and cash flow are not the same thing. Cash flow is about the movement of cash in and out of your business as it operates over a period of time.

This distinction is crucial to your success as an owner - if your company is profitable on paper yet it maintains a negative cash flow for an extended period of time, eventually it will run out of money and you will not be able to continue to operate.

But what does this mean for you and your business? Essentially it means that, "cash flow is King". You cannot afford to run your business by simply printing and looking at your Profit and Loss statement each month. Being able to calculate and monitor your cash flow position regularly is critical to your company's health and survival. You can have the most brilliant product or service but if you don't have positive cash flow, your business will eventually go under.

Internal Influences - Accounts Receivable

One of the items on the Balance Sheet that has a big impact on cash flow is your accounts receivables balance. Let's take a quick look at some key items which influence that impact and highlight some strategies to help you manage the risk.

- Effect of competition – terms offered by others may affect or influence your business
- Stated corporate customer philosophy that mandates customer needs to be placed ahead of everything else – there are times when terms need to be adjusted in order to protect the cash flow and survival of your business
- Systems in place to track and report in a timely fashion on debt collection so that appropriate action can in fact be taken to rectify any issues that might arise
- Computer systems and software that are adequate for maintaining control over collection efforts and credit approval/denial
- Systems in place to keep detailed information pertaining to invoices at hand so that any discrepancies or disputes can be followed up in a timely fashion
- KPIs and targets around what is considered acceptable in terms of accounts receivables ageing and collection – and performance management in place to follow up on the KPIs
- Systems in place to identify potential issues at various stages and implement effective action (whether by phone, mail, fax or email) designed to minimize risk and maximize the potential to collect debt quickly

- The ability of the receivables team to build relationships with customers that encourage and promote timely collection
- Effective strategies to get communications and agreement(s) in writing and negotiate payment strategies over time (if appropriate)
- Systems in place to escalate debt issues to a lawyer or collection agency if appropriate
- Support by management to ensure the needs of the credit department are not overrun by the needs of the sales department
- Open communication between the sales and credit teams
- Procedures to ensure delinquent customer's credit is placed on hold at the appropriate time
- The experience, organization and skill of the team member(s) in the collection area
- Procedures to assess and measure the credit risk of a potential customer prior to delivering the goods/services
- Invoice templates that contain all of the specific information that is required in order to ensure the debt can/is paid for by the customer in a timely fashion – follow up procedures to review issues that seem to re-occur in relation to certain customers
- Management focus and ongoing review of cash flow (in addition to reviewing the Profit and Loss statement)

In addition to internal items that affect the receivables, payables, inventory and fixed assets of ALL companies, there are also some specific internal and external influences that impact particular industry niches. Let's take a look at those in more detail now.

Items That Impact Cash flow in a Manufacturing Company

- Volatility in sales – sales force not meeting or exceeding budget
- Ineffective marketing campaigns
- Offering credit terms (which are not favourable to the manufacturer) in order to entice sales
- Fraud and theft – this should not be underestimated
- Working with suppliers that have cash flow problems

- Price increases by suppliers
- Tightening up of credit terms by suppliers
- Defective or discontinued inputs – whether they be raw materials, components or finished products
- Labour issues – choosing wrong employees/subcontractors/firm to assemble products, labour disputes etc.
- Delays in receipt of raw materials, components or finished products
- Foreign exchange fluctuations on cost of raw materials, components or finished products that are imported from overseas
- Shipping delays in moving finished goods around or out to customers
- Cost of borrowing to cover cash flow shortfalls
- Ineffective (or lack of) systems to control the flow of goods, minimize waste, maintain labour efficiency etc.
- Technology changes that affect the design, manufacturing, use or demand for a product
- Design flaws that exist either in the goods or the way the products are manufactured
- Payment delays by customers
- Facilities and equipment that are not fit or cost effective for the purpose of producing goods
- Investment in fixed assets or fixed expenses that are far too high given the current level of demand by customers (i.e. sales)
- Effect of competition on the market in general and on demand for your products
- Major shifts in the economy (both locally and globally) and any other disturbances that might affect business – war, fire, flood, hurricane, loss of power/water, terrorism
- Custom work that is done without properly considering the increased costs inherent in doing specialized work and adjusting prices accordingly

- Legislative changes that affect the way that business is done and require effort, training, communication, systems, reporting &/or investment to ensure that requirements are met
- Cost of holding work in progress or finished goods for extended periods of time due to fluctuations in demand or supply

Items That Impact Cash flow of a Distribution or Import/Export Business

- Volatility in sales – sales force not meeting or exceeding budget
- Ineffective marketing campaigns
- Offering credit terms (which are not favourable to the distributor) in order to entice sales
- Fraud and theft
- Working with manufacturers/suppliers that have cash flow problems
- Price increases passed on by manufacturers/suppliers
- Tightening up of credit terms by manufacturers/suppliers
- Defective, wrong, short-shipments, over-shipments or discontinued goods received from manufacturers/suppliers
- Taking on far more inventory than is needed due to enticements in the form of bulk buy deals or supplier trade discounts
- Labour issues – choosing wrong employees/subcontractors/firm to sell, labour disputes etc.
- Delays in receipt of shipments from manufacturers/suppliers
- Foreign exchange fluctuations on cost of products imported from overseas
- Shipping delays in moving goods around or out to customers
- Cost of borrowing to cover cash flow shortfalls
- Ineffective (or lack of) systems to control costs and maximize efficiency etc.
- Technology changes that affect the use or demand for a product
- Payment delays by customers due to cash flow, quality issues, terms of sale, change in consumer demand, timing etc.
- Inability to reach target market in a cost effective manner

- Investment in fixed assets or fixed expenses that are far too high given the current level of demand by customers (i.e. sales)
- Effect of competition on the market in general and on demand for your products
- Major shifts in the economy (both locally and globally) and any other disturbances that might affect business – war, fire, flood, hurricane, loss of power/water, terrorism
- Legislative changes that affect the way that business is done and require effort, training, communication, systems, reporting &/or investment to ensure that requirements are met
- Cost of holding finished goods for extended periods of time due to fluctuations in demand or supply

Items That Impact Cash flow in a Retail Company

- Volatility in sales – sales team not meeting or exceeding budget
- Under or over buying inventory, not understanding/predicting change in consumer needs/wants
- Ineffective marketing/advertising campaigns – too costly, too broad, no call to action, bad timing etc.
- Offering credit terms (which are not favourable to the retailer) in order to entice sales
- Fraud and theft
- Working with suppliers that have cash flow problems
- Price increases passed on by suppliers that may be difficult to pass onto consumers
- Tightening up of credit terms by suppliers
- Defective, wrong, short-shipments, over-shipments or discontinued goods received from suppliers
- Taking on far more inventory than is needed due to enticements in the form of bulk buy deals or supplier trade discounts
- Labour issues – shortage of dependable, effective employees

- Delays in receipt of shipments from suppliers (inability to supply at time needed or to coincide with advertising campaigns)
- Foreign exchange fluctuations on cost of products imported from overseas
- Cost of borrowing to cover cash flow shortfalls
- Ineffective (or lack of) systems to control costs and maximize stock turn over and sales etc.
- Payment delays by customers (if terms are not COD)
- Inability to reach target market in a cost effective manner
- Investment in fixed assets or fixed expenses (i.e. rent, staff etc.) that are far too high given the current level of demand by customers (i.e. sales)
- Effect of competition on demand for your products
- Major shifts in the economy (both locally and globally) and any other disturbances that might affect business – war, fire, flood, hurricane, loss of power/water, terrorism
- Legislative changes that affect the way that business is done and require effort, training, communication, systems, reporting &/or investment to ensure that requirements are met
- Cost of holding inventory for extended periods of time due to fluctuations in demand or supply, weather, seasonality issues etc.
- Major change in circumstance that decreases demand for your product (i.e. national news story on someone who dies from skin cancer could affect a suntan bed business etc.)
- Inventory simply goes out of date or becomes unusable
- Quantity of foot traffic to your business is adversely impacted by access issues, zoning, parking or the close/opening of a major retailer in the vicinity

Items That Impact Cash flow in a Service-based Company

- Volatility in sales – project timelines may blow out meaning sales are completed and billing is done/collected further out in the future
- Offering credit terms (which are not favourable to the service firm) in order to entice sales
- Labour issues – shortage of dependable, effective, skilled employees

- Cost of borrowing to cover cash flow shortfalls
- Ineffective (or lack of) systems to control costs and maximize productivity and sales etc.
- Payment delays by customers
- Investment in fixed assets (computers, software or systems) or fixed expenses (i.e. rent, staff etc.) that are far too high given the current level of demand by customers (i.e. sales)
- Capital equipment that is simply not adequate to perform the services being offered
- Effect of competition (especially over the internet) on demand for your services
- Major shifts in the economy (both locally and globally) and any other disturbances that might affect business – war, fire, flood, hurricane, loss of power/water, terrorism
- Technological failure – i.e. ISP goes down for extended period of time, computers are hit by a virus, backups are corrupted, emails go astray, secure servers get breached by hackers, documents or valuable IP falls into the wrong hands, unknown copyright issues pop up
- Legislative changes that affect the way that business is done and require effort, training, communication, systems, reporting &/or investment to ensure that requirements are met
- Balancing the demands of their customers (timing, feasibility, quality etc.) with what is reasonable and possible based on existing firm constraints and technology
- Simply lacking the physical manpower to meet the customer's needs in the timeframe required
- Engaging suppliers (i.e. subcontracting out parts or all of a job) that have cash flow issues
- Lack of expertise, equipment or other factor to start/complete a specific job
- Perceived value – what the customer is willing to pay vs. what it will take to complete the job
- Initial costs to suppliers are often incurred long before any payments are received from the customer