



The 7 Ways To Fix Your Cash Flow Fast!

The current economic climate has placed extreme pressure on many businesses, many who are experiencing a slow down or complete loss of sales and revenue on and off, for weeks and in many cases for months. The result is severe cash flow problems for many and even for those who are still selling and making a profit.

So how do you address the number one thing on every business owner's mind; how to get the cash you need to survive and what systems to implement to ensure that your business can continue to grow under severe cash flow conditions?

Cash is the lifeblood of any business. As the old saying goes, revenue is vanity, profit is sanity, but CASH FLOW IS KING! What every business owner needs right now is practical and actionable advice on how to manage their cash flow through tough times so that they not only survive but can thrive in this environment. But they need more than that; they also need the systems and support to make this work in their business, day-in and day-out.

And to do that, you need to start with understanding your numbers. That is where the anxiety often creeps in. Finance may seem complex and financial pundits do not make it any easier for the average business owner.

So here is our simple 7 driver model that is easy to understand and that will make a dramatic difference to your cash position if you manage it well.

This proven cash flow management system reduces the risk of cash flow shortages in your business while improving profitability and giving you peace of mind that your business is safeguarded.

So, let us start with the basics. What is cash flow anyway? Simply put, it is the transfer of money into and out of your bank accounts over a given period. When the amount of cash flowing into your bank accounts exceeds what flows out, your cash balance increases and vice versa.

Cash flow is also affected by taking on new loans, increasing your cash balance by the loan amount.

So, if you start the month with a R100,000 cash balance and end the month with R80,000, your cash flow was -R20,000. And if you consume cash too fast you may run out of cash sooner than expected. When you are a growing business, you consume cash faster and with poor cash management practices, run out of cash and end up out of business or having to find external funding urgently.

Here is the important bit; there are 7 drivers that your management team must understand.

They have a direct impact on your cash flow and affect the value of your business.



THESE 7 DRIVERS ARE:



You and your management team are responsible for working capital and profit. Your team must be acutely aware of how their daily activities affect the business' cash flow.

- Increased prices – good for cash flow;
- Decreased margins – bad for cash flow;
- Collecting slower – bad for cash flow;
- Paying slower – good for cash flow;
- Increasing overheads – bad for cash flow.

In addition, any client's defaulting on payments will also reduce your cash inflow, so you need to consider this situation if you offer goods to clients on credit terms.



THE POWER OF SMALL INCREMENTAL CHANGES

Small incremental changes to the 7 drivers can have a dramatic effect on your cash position over time. Even a ONE percentage change to the 7 drivers can have a profound effect on your cash flow position.

The key to successful cash management is to monitor all the elements of the working capital cycle. The faster the cycle turns, the faster your trading activity converts into available cash. Introducing relatively small changes to your financial management practices can result in significant improvements to cash flow and reduced reliance on banks and suppliers for cash.



IMPROVING YOUR CASH MANAGEMENT ABILITY

Every business has gaps that can be minimised. Ask yourself: What gap do we need to close?

Every month look at the 7 drivers and identify where small (or large) improvements can be made.

For example, you may come to the realisation that your 22% gross profit margin is too low and you may want to lift it to 25%.



HOW FAST CAN YOUR BUSINESS AFFORD TO GROW?

Starting a business requires cash and growing it requires even more. But very few business owners understand that, even though your business may be profitable, if you grow too fast you can run out of cash. Even a thriving business that fails to manage the balance between cash coming in and cash being consumed can find itself unable to operate because it has run out of cash.

Fortunately, there is a straightforward way to calculate at what rate your business can grow without the need for external funding. Similarly, improving your cash position by working on the 7 drivers of cash flow will enable you to grow faster without additional external funding.



WHY YOU SHOULD IMPLEMENT SUPERIOR CASH MANAGEMENT PRACTICES AND SYSTEMS

- Reduce the risk of unwanted no-cash surprises.
- Less external funding with expensive interest costs required.
- Ability to grow sales and operations faster.
- Being able to meet your payment obligations at month end and pay yourself a full salary.
- Proactive management of your cash position – knowing where you stand at any moment and whether you are on track or not with your cash position.
- A clear line-of-sight on your cash forecast so you can grow your sales with confidence.
- The ability to grow your top line with confidence by reducing unforeseen and show-stopping defaults from customers.
- The ability to calculate the future impact any changes in the 7 drivers will have on both your cash flow position as well as your profitability, e.g. will a 10% increase in volume with a 5% reduction in price be beneficial for your business or not.
- Allowing you the ability to identify strategies to improve the 7 drivers of cash flow and know the impact of these strategies on both your cash flow, profitability and your business valuation upfront.
- Identify cash flow shortages in advance allowing sufficient time to agree terms with banks and other financial providers.
- The ability to show banks and other financial service providers the impact various business strategies will have on your ability to make loan repayments.

At Drake Financial Services we are specialists in working with fast growth business who want more than the standard accounting and tax solutions, but who also want to apply highly effective cash management solutions and systems so that they can protect their business against painful and unnecessary cash flow shortages.

We support our client's growth with systems and advise to enable you to know your self-financeable growth rate, manage your 7 drivers for continuous improvement and ensure your business is always best positioned for growth from a financial perspective.

Furthermore, if your business offers clients goods on terms and you face the cash flow risk of a defaulting client, we can help minimise your risk at an affordable cost to protect your business before devastation strikes with our Debt Protector system.

To safeguard your business right away, set up a 10-minute call with us today by:

Calling Walter Green at +27(0)11 397-1271, or

Send an email to walter@drakefs.co.za with your contact details and I'll call you back.

During this no-obligation introductory call we will discuss the risk your business currently faces and the options you have to best improve your cash management practices and systems and mitigate your risk. Based on the call we can decide on the best next steps to take which is likely to include a no cost meeting, showing you the cash flow and profitability results the 7 drivers will have on your company, using your actual financial results.

