

The Cause of Your Cashflow Problem

Anecdotal evidence suggests that 80% of small and medium enterprises have 'cashflow problems' such that paying bills on time is a constant struggle.

Apart from paying suppliers and payroll there is pressure to make statutory payments (PAYG, GST, superannuation) on time.

To make matters worse business growth means cashflow problems don't go away! One imagines cashflow improving with growth, so why doesn't it?

There are 4 common reasons why your business has a cashflow problem:

1. It is under-capitalised

- * That is, not enough of your money is invested in the business so there is an over-reliance on debt (other people's money)
- * Equity can drain out over time when drawings exceed profits.

2. Funds invested in net working capital expand too quickly

- * Money is thus 'tied up' on the shelf as trading stock or in your customers' bank as book debts
- * This can get out of hand very quickly in a growing business.

3. Operating cash flows don't 'cover' non-operating activities

- * Operating cash comes via the 'engine room' - it is made up of receipts from customers less supplier/expense payments
- * Non-operating activities include **investing** (i.e. asset growth) and **financing** (i.e. asset funding by debt or equity)
- * If operating or trading activities do not generate enough cash to 'cover' investing and financing activities the difference is made up with more debt or liquidated assets, reducing your wealth.

4. Profit is below full potential due to poor productivity of labour

- * Productivity is a ratio - hours sold to hours available for sale
- * Put simply, time 'leaks' away and is lost (i.e. never sold)
- * Lost time thus impacts profit and cashflow, often dramatically.

The Profit Rescue System is designed to substantially overcome problem # 4.