Manage your cash flow to help achieve real success

There has been much research into why businesses fail. But what are the factors that contribute the most?

Top of the list tends to be a lack of working capital or cash, followed by such financial issues as:

•Growing too fast and unable to fund or cash tied up in debtors
•Too few customers
•Prices too low
•Bad debts or poor credit control
•Poor control of overheads
•Inability to raise finance to support the development of the business

Other non-financial factors include recruitment issues, skill gaps, poor communication and stress.

It is rare that a single factor will cause the failure of a business, rather a link between these common pitfalls. There tends to be two 'cycles' that often contribute to the difficulties businesses can face.

The cash cycle

There tends to be a lack of appreciation for the cash cycle, especially more evident in young, inexperienced businesses. The length of time this cycle may take and the working capital required to cover the cash flow in the interim is often undermanaged and underestimated.

Equal importance must be given to each aspect of the cycle; from making the initial investment or raw material purchase, finding the customers, investing in the labour to progress and finish the work, and finally committing the resources to invoice and collect the debt. If more time is spent chasing new business than completing current work and getting paid or vice versa then unfortunately the cash cycle can break down.

Often the business owner is too close to the business or just too busy to see that the solution may be very straight forward, such as invoicing on a weekly basis.

The pricing cycle

Many new businesses price too low in order to gain customers and grow. This can have financial implications though, as it returns less profit, creating less reserves and less security. This can ultimately lead to the business owner having to work longer hours, impacting on motivation, stress levels and work-life balance.

It can also spark quality and service implications as the business tries to save money by reducing overheads or cutting corners to order to retain a margin.

Marketing can also be affected as there are fewer resources in terms of both time and money to implement the desired activities or even create a plan. Once the initial pricing has been set the business may also have difficulty increasing prices at a later point. Therefore it is paramount that pricing is done correctly. After all, a business needs to make some profit in order to keep afloat and enter the cash cycle again.

Published in the Wigan Observer – 27th June 2017