

UNDERSTANDING CASH CYCLES

Understanding your cash cycle and its impact on your bottom line is essential for maximising profit and maintaining the cash health of your business.

The longer your cash cycles – the longer your journey to getting paid.

What is a cash cycle?

A cash cycle is the time it takes you to receive payment for the product you make or the service you deliver.

For example:



Businesses that have to invoice or wait to be paid. The cash cycle turns slowly.

VS.



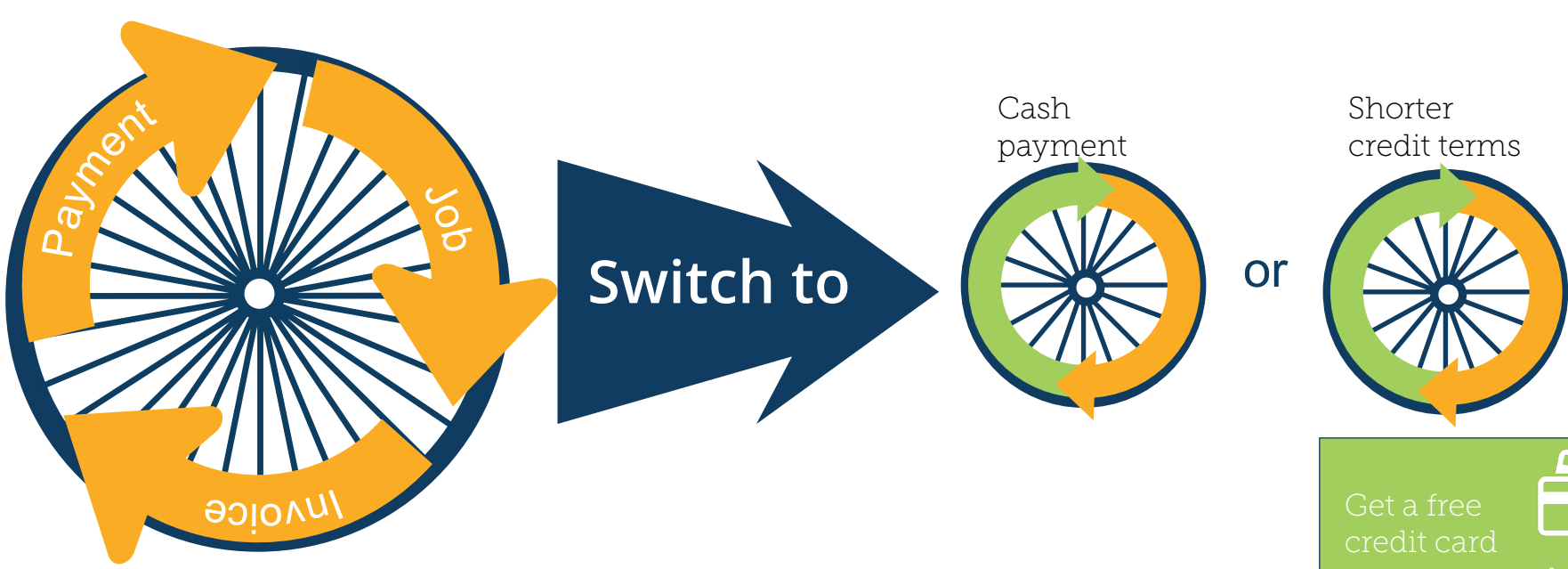
Businesses that get paid immediately. The cash cycle is much faster.

Now ask yourself, do you want to ride a slow ancient bike or a road racer?

The quicker you get cash back, the faster your business will go.

How can I shorten my cash cycles?

Switch to cash payments only, or use shorter credit terms. If you invoice your customers, ask them for payment in seven days – or when they receive their invoices.



Before offering credit, run credit checks with businesses your customer has received credit from in the past – to ensure you don't receive any cash punctures caused by bad debtors. Develop a standard credit reference form to give to customers, in order to streamline the process.



Try to be paid on the spot

Offer your customers mobile and online payment options. If you've just finished a service, delivered a product or completed a job, ask for payment immediately while they are happy.



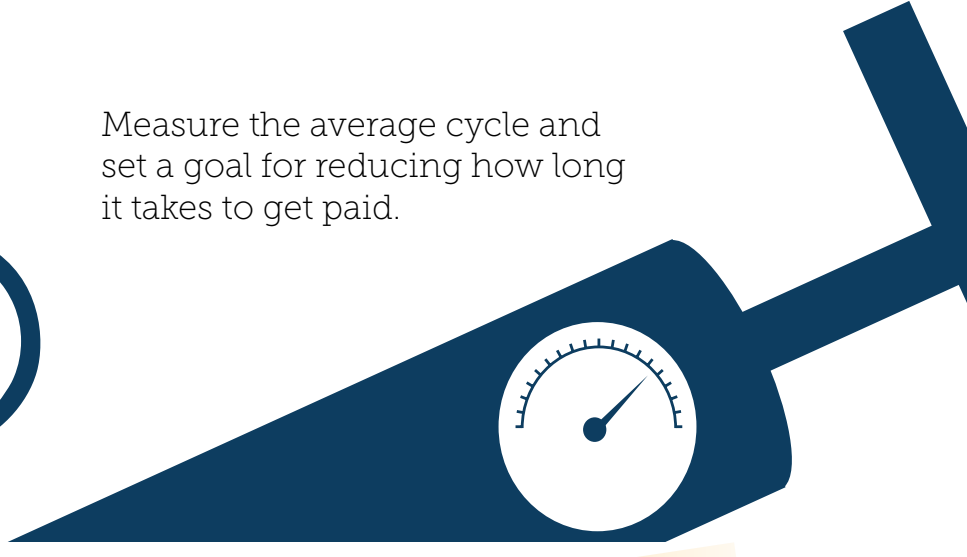
If you do invoice, ask for payment in seven days.

Get paid earlier

Pump more cash into your business by incentivising early payments.



Measure the average cycle and set a goal for reducing how long it takes to get paid.

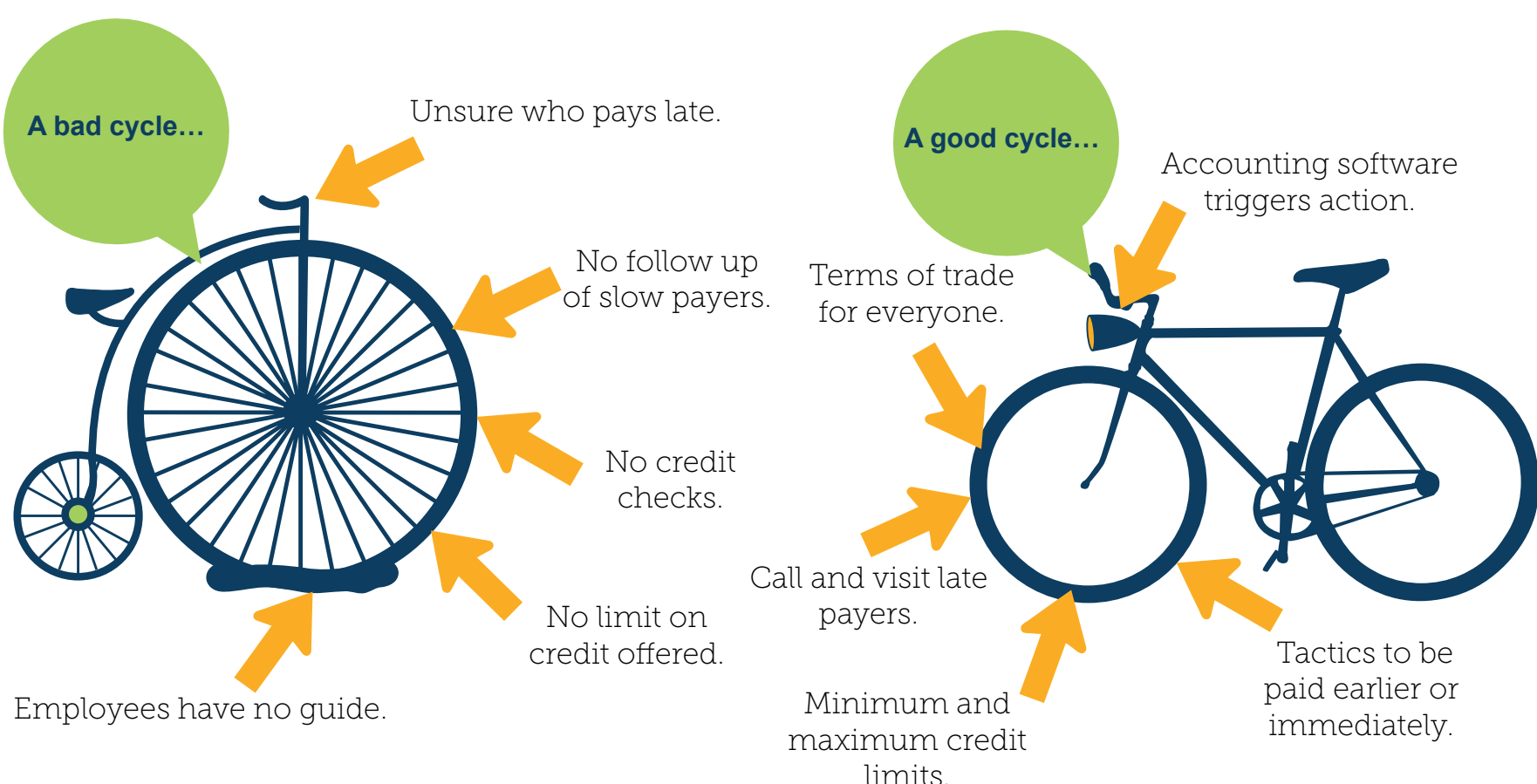


Look ahead and keep tabs on late payments and follow them up consistently. Be firm but polite. Ask for pre-payments or deposits.

Reduce the risk to your business by avoiding credit card fraud.

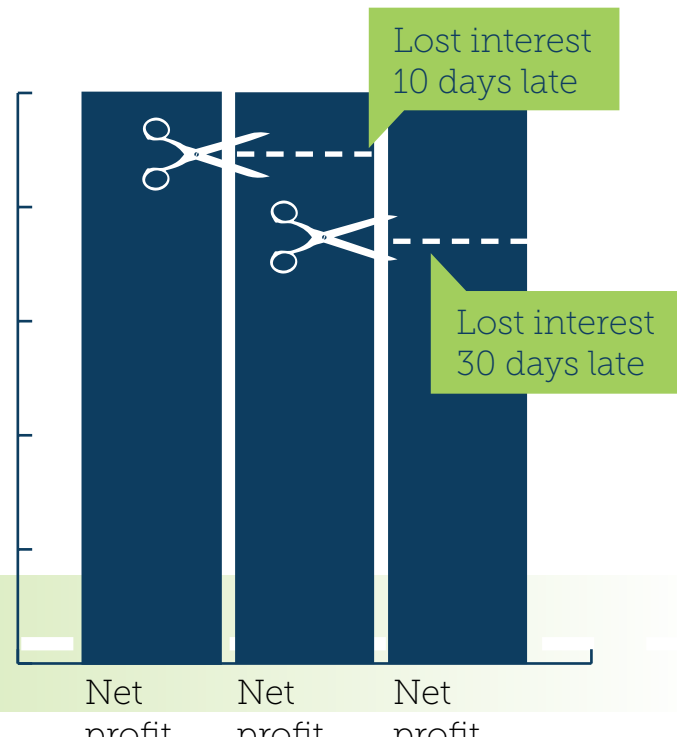


Bad cycles versus good cycles



The effect on the bottom line

A long and inefficient cash cycle doesn't just delay payment; it hurts your overall net profit.



Business is a journey

Running a small business is as much about the journey as the destination.

Measuring your cash cycles will help you forecast your time to destination so you reach your profit goals efficiently and, all going well, ahead of schedule.

