

The SBO Program @lert

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 having to pay suppliers and wages there is pressure to make statutory payments (BAS, PAYG, GST, superannuation) on time; then there are the income tax bills that somehow seem to always arrive at the wrong time!

And funding business growth means cashflow problems don't go away!

The 4 most common reasons your business has a cashflow problem are...

1. The enterprise is under-capitalised:

- * That is, not enough of your money is invested, leading to an over-reliance on creditors and debt (i.e. other people's money)
- * Your equity drains 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/trade debtors/receivables
- * Your investment in these assets is 'offset' by money you owe your trade creditors/payables

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 that drain cash include - **investing** (i.e. buying assets) and **financing** (i.e. servicing & paying off debt)
- * If net operating cashflow does not 'cover' investing & financing activities the difference is made up with more debt, asset sales or more equity injected by you - all reducing your wealth!

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

- * Productivity is the ratio of 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 SBO Program is designed to substantially overcome problem # 4; and in so doing we will substantially fix the other 3 issues as well.