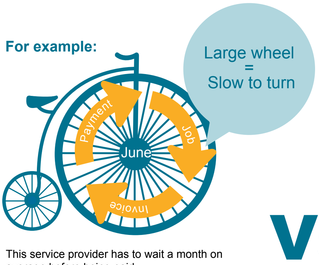
Understanding cash cycles

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?

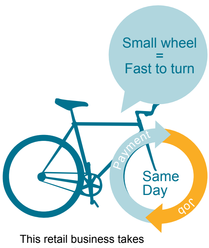
A cash cycle is the time it takes you to receive payment for the product you make or the service you deliver.

For example:



This service provider has to wait a month on average before being paid.

Vs.

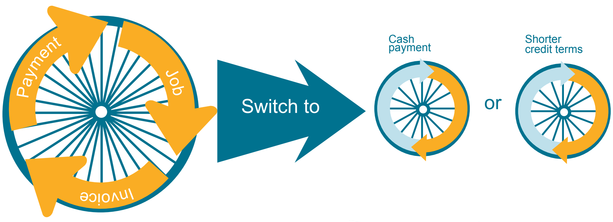


This retail business takes cash over the counter.

The shorter your cash cycle, the faster cash comes into your business.
So ask yourself, do you prefer to ride a penny-farthing bicycle or a road-racing bike?

How can I shorten my cash cycles?

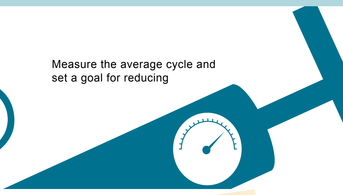
Switch to cash payments only, or use shorter credit terms. If you invoice your customers, ask them for payment in seven days – or when they receive their invoices.



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.

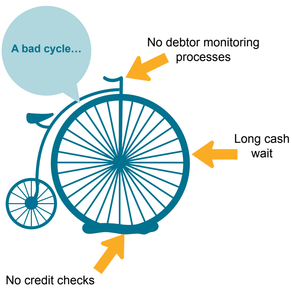
Pump more cash into your business by incentivising early payments.

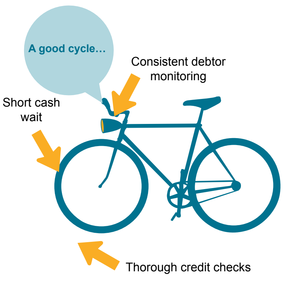
Measure the average cycle and set a goal for reducing



Keep an eye on late payers – and follow them up consistently. Try to be firm, yet polite.

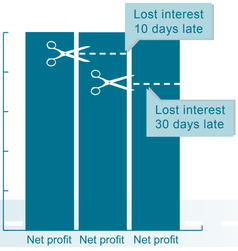
Bad cycles versus good cycles





The effect on the bottom line

A long and inefficient cash cycle doesn't just delay payment – it hurts your overall net profit. The more cash you generate, the less you have to borrow and the lower your overheads



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.