**Business Type:** Business to Business
**Business Category:** Finance: Accounting Software
**Content Voice:** Professional/Educational
**Description:** This business provides web-based accounting software that is utilized by small and medium sized businesses. The goal of their blog is to position them as a financial authority and to build trust with their readers. This post was written to educate current and potential customers who may be dealing with a potential cash flow problem.

# Get Cash Flowing in The Right Direction Again

Cash flow problems in business can be quite common. It's important, however, to distinguish between a temporary cash flow problem and a more permanent one which might force a company to restructure.

Most companies, at some time or another, experience a net cash outflow, which can be caused by paying a substantial amount of money up front for heavy equipment or raw materials. This type of cash flow is common, temporary and not something with which to be concerned.  Once this kind of transaction is complete, company cash flow returns right back to normal. It is when your money outflows become more persistent that the causes need to be addressed quickly to keep your business from becoming insolvent.

You might be tempted to cure the malady first by trying to bump up sales. However, this would be a grave mistake. While flat sales volumes can be the underlying cause of reduced cash flow, the real problem is more likely to be something else. If you are making sales, but failing to collect payment for products, you have just compounded your crisis.

### Identifying the Factors That Cause and Contribute to a Cash Flow Crisis

So what defines a cash flow crisis? Simply put, it is the state a business finds itself in where they are consistently struggling to generate enough revenue to pay off its liabilities.

This type of crisis can arise from a variety of causes. One of the most common is low profits or even worse, actual losses. Profit from sales is a vital cash source. Most business who are constantly operating at a loss can eventually run out of cash and find themselves with no alternative other than bankruptcy. Fixed assets, such as plants or warehouses, can end up plaguing companies too.  While they might have been needed once, if they are not in use now it can be incredibly expensive to cash them in, especially if they were obtained through short-term finance.

Similarly, holding too much stock is another way to wrap up desperately needed cash. If it is impossible to shift the stock quickly, it may become obsolete over time. Storage costs will increase, and once again, you have that unhealthy stuff-for-greenback situation that will contribute to reversing cash flows.

Cash flow can be problematic for a business startup for two, often connected, reasons. First, with the desire to build a healthy customer base, you might be tempted to offer generous credit terms. This action may generate revenue quickly, but if these clients who buy on credit (known as trade debtors) are slow or non-compliant in paying for their goods, this will only harm your cash flow. If it is necessary to spend extra time recovering the debt, your problem is compounded once again.

The second reason is when the opposite occurs. Even if revenue streams for a new business are being received on time, this could lead to overtrading. When sales are good from the get-go it can be very tempting to grow the business too quickly; perhaps investing in extra factory or office space when it might be best to let things settle a little. The temptation is to borrow too much short-term money, which can be expensive.

Lastly, all round changes within the business environment can negatively affect your cash flow. These changes can be more or less predictable depending on what they are. If your business tends to sell more during one part of the year than the other, than the extra demand can, in turn, create a need to outlay more cash.

Other changes which are harder to foresee can be split into two camps: internal and external. Internal changes include key employees leaving the company, long term sickness or other absenteeism or a plant suddenly breaking down. These events would mean you need to outlay more cash to cover temporary staffing requirements and recovery work site. External changes include cycles of recession, accidents, and new legislation; all of which can lead to cash outflow.

Cash flow problems hinder 50% of small business, 2010 survey claims. So don't feel ashamed if your business has persistent cash flow problems. Before you begin to reverse your cash flow, first change any unhelpful feelings you might be experiencing such as apathy, denial and loss of confidence into productive determination to fix your cash flow for good. You should expect to work hard and perhaps alter your mindset to encompass greater planning and foresight in running your business. Expect also to be prepared to restructure your business so that new proposals you need to put in place stick.

**Addressing Underlying Causes of a Cash Flow Crisis**

Rather than throw money at the problem, it is far better to address the root causes of your company's cash flow problems.

Financial statements must be regularly examined, and you will need to set up a cash flow forecast spreadsheet to keep check of money flowing in and out of your company, and to anticipate problems or changing market conditions.

Your ultimate goal is to deliver your product to customers more efficiently and to get paid more effectively. Dispatch invoices on time set out clear payment terms and don't be shy about pressing for overdue payments. It is also beneficial to put a stock control management system in place to ensure you never hold too much stock.

Maintain a healthy relationship with banks and lenders, and inform them of any significant changes, such as a new big contract, so that you keep that conduit for borrowing money openly.

Keep marketing as a top priority. If you rely on the internet for business, you should ensure your website is getting enough traffic to generate sales. One way to do this is to by establishing yourself on all the usual social media channels and keeping them fed with up to date information.

Cutting your employment costs is another good way to strangle that negative cash flow. Making cuts does not necessarily mean laying staff off altogether, but you might be able to reduce overtime, forego bonuses, or perhaps reduce some working hours to get you back on the right track.

Next, take a look at your pricing. Have you updated pricing levels since starting out as a business? What are your gross profit margins? The price you charge customers may need a radical reexamination.

Finally, before deciding your sales are too low, consider whether the costs involved in delivering the product are just too high about your sales volume.

Poor cash flow can prove a nightmare for any company, but if you take some simple steps to combat it, you can leave the fear of insolvency behind you.