BMIM Cash Flow

9 quick steps to detect untapped potential for more cash flow

To discover the hidden potential for generating more cash flow, all you need to look at is 9 key ratios in your business and see how they compare to the standard. Let's look at those rations and uncover the cash flow opportunities.

1) MARGINAL CASH FLOW for your next £1 of sale

= gross profit margin – working capital* / revenue x 100

Your number £

Meaning: this number tells you the amount of money left for your overheads and profit after you've satisfied all your working capital cost and direct costs.

Standard: the bigger the difference, the better

2) BUSINESS CYCLE

= debtors days + inventory days – creditors days

Your number (days)

Meaning: Expressed in days, this is the time it takes for the money to move from when the project is secured or stock arrives till when your customer pays you or till you complete the work.

Standard: Less days is better. Negative days is ideal.

3) GROSS MARGIN

= gross profit /revenue x 100%

Your number %

Meaning: the most powerful indicator of an effective sales team, a differentiated strategy and real growth.

Standard: More is better. Distribution businesses, as well employment agencies and companies that use sub-contractors would typically have low gross profit.

4) NET PROFIT MARGIN (before interest and tax)

= net profit /revenue x 100%

Your number %

Meaning: Profit generated from operating the business.

Standard: 15%+ is really good, 10% is average and it means that there are opportunities for improvement and 5% or less is poor (although this is typical for distribution business and other low-margin businesses).

5) INVESTMENT IN WORKING CAPITAL

= working capital* /revenue x 100%

Your number %

Meaning: investment your business needs to make before it sees the returns

Standard: 15%+ is really good, 10% is average and it means that there are opportunities for improvement and 5% or less is poor (although this is typical for distribution business and other low-margin businesses).

* Working capital = (trade debtors+ inventory - trade creditors)

6) DEBTORS DAYS

= trade debtors/revenue * 365

Your number (days)

Meaning: How long your clients take to pay on average.

Standard: Less days is better. Negative days is ideal, which means that you receive the payment upfront.

7) INVENTORY DAYS

= WIP / revenue * 365 (for services business)
or
= stock / direct costs * 365 (for all other)

Your number (days)

Meaning: How long it takes on average for a project to complete or a stock to shift.

Standard: Less days is better.

8) CREDITORS DAYS

= trade creditors/direct costs * 365

Your number (days)

Meaning: How long it takes on average for you to pay your creditors.

Standard: Less days is better.

9) OTHER

= retained profit – investment in working capital

Your number £

Meaning: Can the profit your business retains (after dividends are taken, interest is paid and tax is paid) fund your growth.

Standard: Positive number is better, which means your business can support its own growth.

If one or more of these 9 ratios are out of balance you might be having opportunities for generating more cash flow.

At BMIM Cash Flow we have a number of solutions to help you turn these opportunities into cash flow. Visit our website for more details and to book your initial consultation.

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