



Why cash flow matters more than profit

Description

If you're running a business, you've probably heard people talk about profit, and it'll often sound like the most important thing – after all, making more than you spend is sure to be the goal of any business owner. But the truth is that many business owners learn the hard way that profit isn't the full story, and what really keeps your business alive day to day is something else entirely – it's cash flow. With that in mind, keep reading to find out exactly why cash flow matters more than profit so you can keep things running smoothly and end up with a successful business.

Timing matters

Cash flow is actually all about timing – it's the money coming in and going out of your business on a regular basis, and even if your business is profitable on paper, if you don't have cash available when you need it, things can fall apart very quickly.

The fact is that bills still need to be paid, staff still need their wages, and stock still needs to be ordered, and if you don't have the cash in hand, a healthy profit margin isn't going to be any use. Plus, if no one's paying you, it won't matter what your accounts say because if there's no money in the bank, you're stuck.

It's easy to forget about cash flow when things seem to be going well, and you might look at your sales and feel good, but the real question is has that money actually reached your account? Sometimes, especially when customers are slow to pay or invoices take weeks to clear, the answer is no, and that's when problems start creeping in. A business might be owed money, it might have plenty of work booked in, but if the bank balance says something different, there's a problem.

What cash flow really does

That's why [managing your cash flow](#) is so important – it helps you stay in control and it means you're able to pay your bills on time and avoid falling behind. That's going to give you

a lot more freedom to plan and grow and you'll be able to stay a lot calmer in slower months.

And of course, profit is definitely still important, but cash flow is what keeps the business running from one week to the next, and without it, a potentially profitable business might not make any money at all.

How problems start

Many business owners only start to notice cash flow when it becomes a problem and they realise too late that they've tied up money in stock or unpaid invoices, so even if their accounts say things are good, the reality is very different. Suddenly, they're short of cash even though the business seems busy. That's a stressful feeling, but it's also one that can often be avoided with a bit of planning and a better understanding of how cash actually moves through the business.

One helpful tool that some businesses use in this exact situation is [invoice factoring](#), which lets you unlock money from unpaid invoices rather than waiting weeks or even months for payment. You're not taking on debt, and instead you're speeding up the money you're already owed, so it can work out perfectly – that extra bit of cash coming in faster can help to smooth things out in your business and keep things ticking along without you having to borrow money, which is often the alternative.

Growth can cause problems

It's also worth remembering that growing your business can cause some problems too, and although you might expect cash flow to get easier as sales go up, that's not always going to be the case. The fact is that growth often brings bigger orders, [more staff](#), and extra costs, and those sometimes have to be paid for before any of the extra income arrives.

That can mean that even if your profits are growing, your cash flow might not keep up, and that's why paying attention to cash flow is something all businesses need to do, not just the ones that are struggling.

Spot trouble early

Running out of cash is one of the biggest reasons small businesses close, and it often happens without anyone noticing – that's the problem. There's no big event that makes it obvious, and it's just a slow build-up of delays and shortfalls until one day there's no money left at all – or at least not enough to pay the bills.

If you're always waiting for payments or you've got into the habit of spending before money actually arrives because you know it's coming (which is never a good assumption to make in business or in life), it's going to cause stress that gets in the way of making good decisions. The fact is that planning ahead and knowing what's coming in and going out is the best way to stay calm and focused, and that's true no matter how busy you are.

Don't Just watch sales

Good cash flow management means knowing when payments are due, when money is expected, and how much wiggle room you've got, and it means avoiding nasty surprises because you know that profit is a long-term goal but cash flow is an immediate concern.

When your cash flow is strong, it means you can [make better choices](#), and you can invest in the right things, as well as knowing which projects you can take on without panicking, so it's well worth learning how to use it wisely.

Take it seriously

The key with cash flow is to check in as often as you can, without stressing about it. To do that, don't just look at your sales report – look at your bank balance as well, and look at what's due in that month. Then ask yourself if your cash is going to cover your bills, and if not, it's better to spot the gap early so you've got a chance to do something about it rather than find out when you're meant to be paying for something but you don't have the money to do it.

It's also good to stay realistic about how long payments actually take to come through – that way, you're planning with real numbers and not just what's expected on a sales sheet.

Category

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