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## Cash Flow is not your Bank balance

When we see the words 'Cash Flow', business owners and managers' minds turn to our bank balance. WE ALL WANT A BIGGER BANK BALANCE!

Put simply, Cash Flow is the movement of money in and out of the business via these sources and applications. Whereas our bank balance is the final result you get from all of those cash flows. It follows that a bigger bank balance is a function of proactive management of cash flows.

The key drivers of our business's cash flow are summarised below.

CASH IN (+) (Sources)  
CashflowNAV FACTOR  
CASH OUT (-) (Applications)

Gross Profit

Gross Losses

Gross Cashflow

Working Capital

Working Capital

- Suppliers (on account)
- Customers (on account)
  
- Stock on hand/Work-in-progress

Working Cashflow

Operating Expenses

Operating Cashflow

Someone Else's Money

- Customer deposits
- Goods and Services Tax (GST)
- Employee deductions like Pay As You Go (PAYG) and superannuation

Available Cashflow

Other Income- Interest Income

Other Expenses- Interest Expense

Business Cashflow

Asset

## Asset

- Sales
- Purchases

## Funding

### Funding Repayments

- Bank loans
- Bank loans
- Other loans
- Other loans
- Investors
- Investors
- o Existing owners
- o Existing owners
- o New shareholders
- o New shareholders

At BusinessNAV we speak in terms of the 'cash flow structure' of a business. The reason we do this is so we can break these IN's and OUT's into smaller pieces to more effectively manage growth.

Before we go any further we will explain what each of these cashflow terms mean and how they impact your decision-making.

## Gross Cashflow

A most important indicator of the gross margin a business is making on its product or service sales

#### Working Cashflow

This gives a guide as to what portion of sales will be available to meet operating expenses

#### Operating Cashflow

Now that operating expenses have been deducted this is the cashflow factor (relative to sales) from ordinary operations of the business

#### Available Cashflow

These are funds often accessible before customer, employee and government commitments have been met, thus increasing cashflow short term

#### Business Cashflow

After deducting the regular commitments to fund the business and pay owners, a positive business cashflow indicates that a business is successfully funding its operations from internal sources i.e. Doesn't have to borrow

So which one should you be looking at?  
What all businesses need to know is:

- Firstly, is their "Business Cashflow" structure adding cash or creating a cash flow shortfall; and
- Then, if there is a shortfall, what are the options for funding it?

BUT, what successful growing businesses go on to find out is:

- Which of these cash flow IN's and/or OUT's can be improved; and
- How do they improve them?

Users of BusinessNAV's CashflowNAV management system are able to forward-plan their profit and loss and balance sheet. Therefore they can determine their funding needs and monitor working capital performance relative to their sales growth. This provides indicators for when to act on cash flow drivers in the business.