Are You Making These Common Mistakes That Drain Cash Flow?

Everyone knows that profit +/- changes in inventory, accounts receivable, accounts payable (and GST) and fixed assets equals cash flow. That is why getting your inventory levels right, optimizing your receivables and payables and investing only in assets that generate a return is absolutely critical. However, there are also several other little known ways that corporate cash can bleed out of your company. If you are looking for additional strategies to generate incremental cash flow, you may also want to consider these:

- Conduct random checks of shipments to ensure that goods meet strict quality standards – this will reduce the number of returns, double handling, lawsuits and time spent by the customer service department handling issues
- If a recall is necessary, it is imperative to do so promptly – the way that your company deals with a major catastrophe can make or break your reputation and future with all of your customers (past and present)
- Statistically speaking as your gross profit margin increases, so too does the likelihood of errors – bear this in mind
- Consider using an outside firm to test your goods – this will either confirm your own internal testing results or give you the information you need to fix the problems that exist
- Volatility (during the month) of shipments leaving and being received can create an environment where errors are more likely to occur – smoothing out volatility will save you time and money (in overtime and dealing with errors)
- Shipping errors may be one major area where cash is being wasted in your business – ensure the right goods are going to the right buyer at the right address, minimize damage in transit by packing correctly, don't ship goods to someone who is on stop credit or hasn't been approved, use the right shipper for the each customer, eliminate over/short shipments, catch cancelled orders before they leave etc.
- Ensure all items that are returned are actually unpacked, received and re-entered into stock on hand properly
- Do not accidentally return damaged, incomplete or defective goods into inventory – they need to be disposed of and dealt with separately
- Be wary of trying to salvage part of defective goods to use as spare parts for other defective goods – unless you know what you are doing, you may be creating more headaches for yourself down the track

- Ensure all returns are processed accurately and that the credit is issued for the correct amount – have paperwork double checked to be sure

- All returns should be checked against the original sales invoice paperwork to confirm that the goods originated from your business – you do not want to give a refund or credit to a customer for goods that were not even purchased from your business

- Put a process in place to assess whether the return/credit is even warranted – how much time has passed, have the goods now exceeded their use by date, are the items out of warranty, does this customer have authorization to return the goods, have the goods be misused somehow etc.?

- In the case of defective/damaged goods, is there any way that you can either return the item to your supplier for a credit or recoup some cash by selling it via another channel?

- Ensure that all goods received (which are fit for sale) are actually returned to inventory in the correct place/location so that they can actually be re-sold again

- Separate your credit, billing and stock receipt functions – separation of power and control will help to prevent fraud and theft

- Security cameras, audits, guards, locked cages, security tags, employee checks, customer bag checks and other procedures will often go a long way to minimizing inventory shrinkage via theft