Issues of Working Capital Management

Good working capital management helps when it comes to unexpected financial decisions that could impact the business. Sometimes, it is imperative to notice the problems you face when it comes to working capital. Some of these are:

1. You cannot operate on your day-to-day activities with a lack of working capital.
2. Your company loses out on market opportunities such as cash discounts and bulk lower prices on products.
3. Your company could lose out on its creditworthiness as you will be unable to pay off your obligations when they have matured.
4. You will lose out on excellent investment and expansion opportunities due to insufficient working capital.
5. Your small business will not be able to utilize fixed assets and your assets will be depreciated in value, which will later lead to increased costs.

Some of the reasons for working capital problems are:

Poor Sales Performance

Sales drive revenue into a business. Gross sales are one of the elements that determine a positive working capital flow into your business. If sales are good, you can calculate working capital to see how much your business owes at the end of the year. If you have enough liquid assets to pay your bills, you are safe. However, you know you have a problem with working capital if your sales performance is low. Less cash flow coming in results in lack of funds to make payments later.

Past Due Receivables

When your past due receivables are increasing, working capital gets affected. Accounts receivables are the payments a company is yet to receive from its customers who purchased their goods or services on credit. If a small business extends its credit line to its customers, this reduces the

Tightening credit and collection policy are one of the most common methods of improving days sales outstanding (DSO).

Poor Quality Delivery

Customers are paying short, due to quality issues. Small businesses facing a capital crunch may not deliver on quality with their products or services, and this will result in customer dissatisfaction. When you work with customers who are dissatisfied, they will delay payments, demand refunds and you will wind up with a cash flow that will be unsustainable over time.

Poor Inventory Management

Detailed information on inventory not available and Inventory turnover problems. Companies need to purchase inventory on a regular basis to keep their business going. However, if inventory for a company includes raw materials and finished goods, an insufficient amount of stocks can result in reduced sales and delay for customers, leading to the vicious cycle of poor cash flow into the company.

Delay in Payment to Vendors

When your customers fail to pay you on time, you fail to pay your vendors on time. This results in late payment penalties and financial glitches for the vendor. This could result in a business break up and you will be on the lookout for a new vendor. This will have an impact on your cash flow and the time-lag will prolong for you to meet your working capital requirements.