Analyzing cash flow drivers

Looking at what drives your operation's cash flow is key to business success. There are seven key financial drivers for cash flow, and each provides information that, when analyzed together, can help you identify areas to improve and make smarter, strategic business decisions.

Cash flow driver and ratio	Questions to ask
1. Sales Growth = ((Gross income Period 2 - Gross income Period 1) / Gross income Period 1) x (365 / Days in Period)) x 100 **2. Gross Margin** = ((Gross income – Cost of Goods Sold (COGS) or Total Variable Costs) / Gross income) x 100	• What is the projected sales growth and gross margin in comparison to the historical? • What are the assumptions? Are they reasonable? How do they compare to budget/historical? • What are the break-even sales? • Have you ever achieved those numbers?
3. Operating Expenses = (Total variable costs / Gross income) x 100	• How does the projection compare to historicals? • Is a projection required or would a forecast be better suited? • What is the best measure – % of total or $ per unit? • What are the break-even expenses?
4. Account receivable days = (Accounts receivables / Gross income) x Total days in period **5. Inventory days** = (Total inventory / Total variable costs) x Total days in period **6. Account payable** = (Total accounts payables /Total variable costs) x Number of days in period	• Is inventory growth a result of unsaleable product remaining on hand or is it ramping up for anticipated expansion? • What is the quality of the receivables? Is it realistic that they will be collected in a timely fashion? • How do the projected days compare to the past? • If they are different, why?
7. Net capital expenditures = Net change in fixed assets + Depreciation expense + Loss on sale of assets + Profit on sale of assets	• Was the capital expenditure financed? Non-financed capital expenditures reduce the amount of funds available. • If non-financed, how was it paid for? • What type of capital expenditures do you intend to acquire? (Replacement? Repairs and maintenance? Expansion?)