

## **Increasing Cash Velocity using Theory of Constraints - PART 16 of 16**

### **Summary**

There are two cash velocity rules:

- Make sure that the amount and rate of cash flowing in is enough to cover all your business and personal needs
- Be paranoid. Unfortunately, stuff happens. And unless you're willing to risk losing your passion, studying and maximizing your cash velocity is essential.

The goal of this series was to educate the reader about cash velocity -- how to maximize it and how to avoid cash becoming your constraint. We discussed the two drivers of velocity: throughput and cash-to-cash cycle time. We found that by using Goldratt's TOC techniques, we can increase throughput and reduce cash-to-cash cycle time. We also discovered that the velocity of throughput can be more important than the amount of throughput, especially when we are limited by cash.

If fear of cash problems is not enough for you to monitor, forecast and plan for your cash velocity needs, then consider this: The real value of your business is NOT based on your accountant's value of your assets; it is based on the cash earning stream that your business assets are likely to produce. The more predictable and reliable this stream of cash is, the more valuable your business is. So if you ever plan to sell your business and retire with the money, then you need to pay attention to your cash velocity. Your banker will also value your business and assess your risk based on your cash flow.[1] Cash is still king. It's still the life blood. So get in the drivers seat by understanding and increasing your cash velocity.

[1] Many banks use the Uniform Credit Analysis® Cash-Flow Worksheet developed by Wells Fargo and made popular by the Risk Management Association.

Here's to maximizing YOUR profits!

"Dr Lisa" Lang

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For Part 1 of this series:

<http://www.scienceofbusiness.com/Portals/0/AskDrLisaVolume5Number11textonly.pdf>

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