MANAGING YOUR BUSINESS' CASH FLOW

By: Monte Zwang

You wouldn't drive a car without a gas gauge or speedometer, and if you're driving on an empty tank, you won't get very far. Then why would you make financial decisions without the proper tools? Businesses must master controlling the flow of cash. Cash flow planning helps eliminate uncertainty, identify obstacles and move forward armed with information. With information you can make plans and changes to improve your business.

Why a Cash Flow Statement?

Many business owners believe their financial statements will give them all the information they need. Financial statements are an historical tool that shows you where your business has been. A Cash Flow is the fancy name for a working budget that tells you how much cash your business actually has. Working in sync with your balance sheet your cash flow should be an easy-to-read tool that allows you to monitor sales, costs, profitability, collections and cash. It allows you to plan for future cash needs for growth, while identifying operational issues requiring immediate action.

Successful cash flow planning does not require a degree in accounting. What you need is real-time understanding of where the cash is originating, where it is going, and how much is left over (just like you do at home). Businesses need to operate with a cash flow model that looks ahead one year, month by month, and is updated with actual results every week.

Create a Worksheet

The formula for successful cash flow management is deceptively simple. Money in. Money out. Money left over. If there isn't any money left over, then you need to do something differently.

Start with Sales. Sales is work performed that is documented by cash register receipts, guest checks or invoices. Project the amount of sales you anticipate month-by-month starting with the current month. Sales should fluctuate when you consider the seasonality of your business. Break the sales into categories and be conservative.

Project your collections month by month. Collections are the money you put into the bank in the form of cash, checks or charge card vouchers. If Sales do not equal Collections, you either have accounts receivable or a cash control problem.

Review your expenses. Define your expenses into two major areas: Cost of Sales (expenses that fluctuate with sales such as product costs) and Overhead Expenses (expenses that do not fluctuate with sales). Define the cost percentages for your major sales categories. Forecast all other Overhead Expenses (rent, utilities, insurance, licenses, etc.). Project all expenses out in the month they will be paid.

Forecast your payroll. List your current and anticipated employees and categorize them as Cost of Sales labor or Overhead labor. Cost of Sales labor may be projected in part by a target labor cost percentage. Estimate payroll expense per employee (average hours worked, rate of pay) over the next twelve months.

Evaluate Your Profitability

With monthly sales and expenses projected, business profitability, feasibility and value can be determined. Total Sales minus Total Cost of Sales Expenses (including Cost of Sales payroll) minus Total Overhead Expenses (including Overhead payroll) equals Monthly Cash Reserve. This is also your profitability. Is there any money left?

What debt are you servicing? Evaluate this debt separately from your profitability. Debt takes many forms including notes, loans, credit cards, leases, and lines of credit. When businesses must restructure their debt in order to improve cash flow, lenders expect the business's Balance Sheet to look a certain way in order to qualify for financing.

So, What's Next?

Once this working budget is assembled, a break-even sales volume can be determined that generates enough profit to cover debt load and have no cash loss. Your cash flow objectives are now clarified and strategies can be implemented. Any issues that caused a cash flow problem will now be corrected.

With your Cash Flow mapped out, you have the beginning of control.

Cash Flow Planning brings financial stability to a business through pro-active budgeting, monitoring and adjustments. You will understand where you are today and what your options and priorities are. You will be able to forecast your cash needs and gain control of your business. With the use of a Cash Flow, your business will have more money and a road map for the future.

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