

Cash Flow Management Basics

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Topics

Introduction

Cash Flow and its importance

Cash flow fundamentals

Financial Management

Cash Flow Example

Key Takeaways

Next Steps

Financial Statements describe the state of your business

Income Statement

(Profit & Loss Statement)

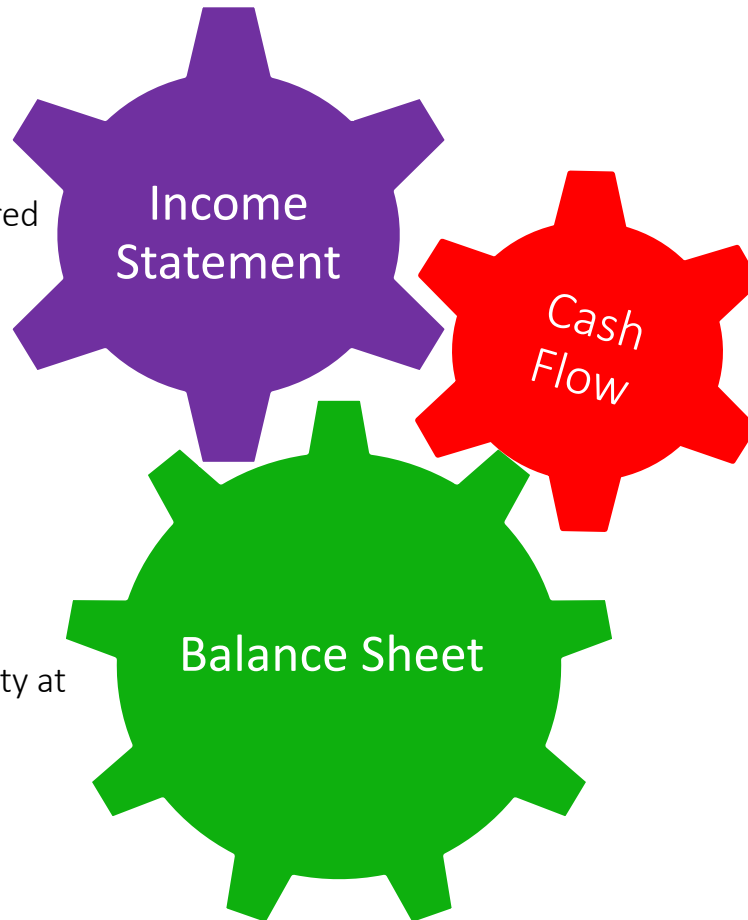
summarizes the revenues, costs and expenses incurred during a specified period

Are you making a profit?

Balance Sheet

It reports a company's assets, liabilities, and equity at a single moment in time.

Is the business building wealth?



Cash Flow Statement

It tracks the inflow and outflow of **cash** resulting from operating, investing and financing activities during a given time period

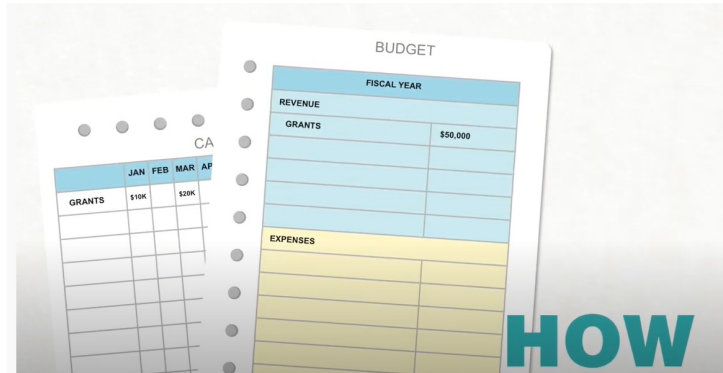
Is there enough cash to run the business?

Cash Flow and its Importance

Cash Flow

Cash flow is a measure of the money flowing in and out of a business organization during a defined period of time

Budget and Cash Flow



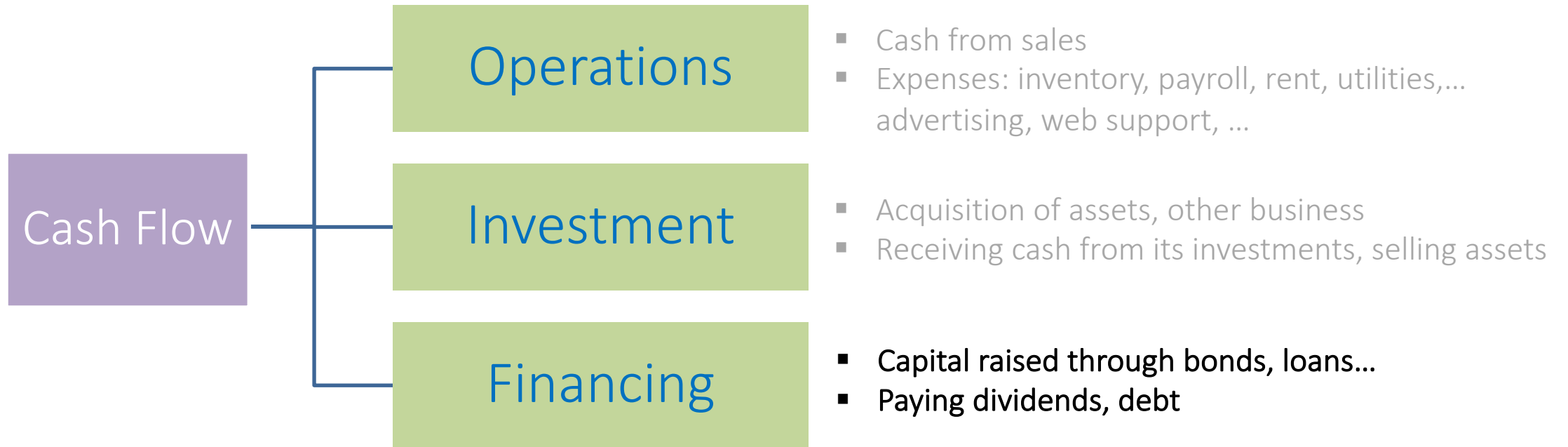
Budget

Estimate of how much money will be made and spent in a period

Cash Flow

tracks money that enters and go out at different times during a period

Cash Flow Components

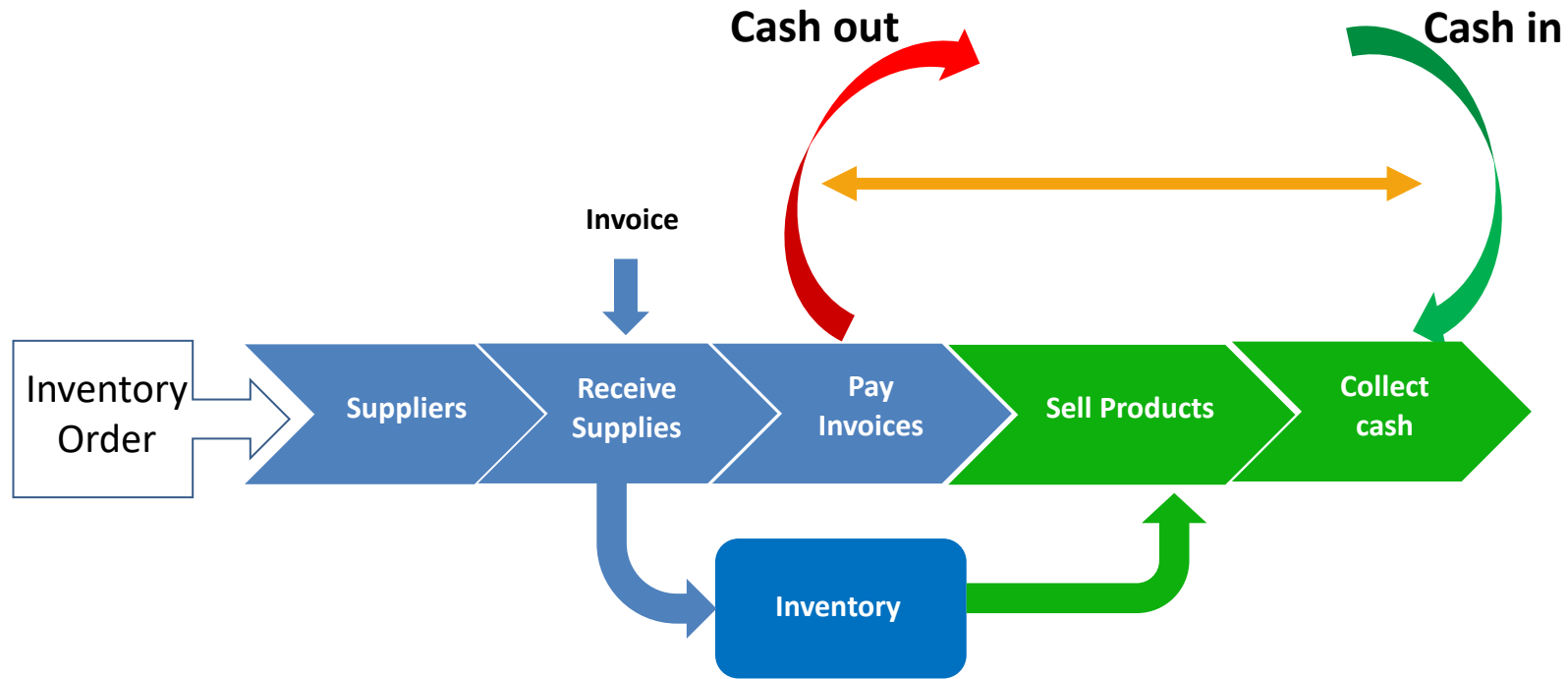


Why Cash Flow is important?

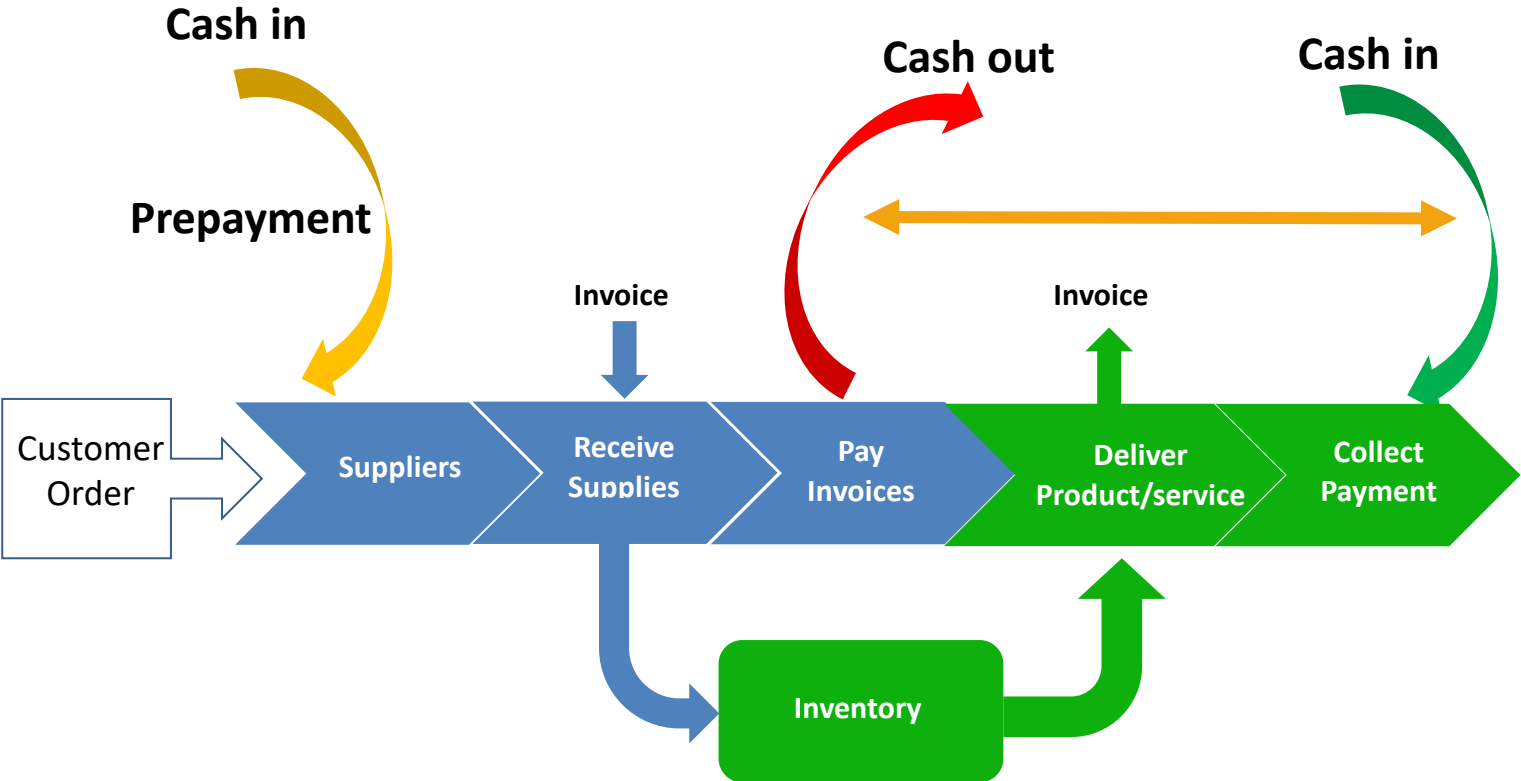
- Describes how your business generates and spends cash
- Positive cash flow enables growth and investment
- Positive cash flow is important for Investors and Banks
- Forecasts can predict cash shortages situations

Cash Flow Fundamentals

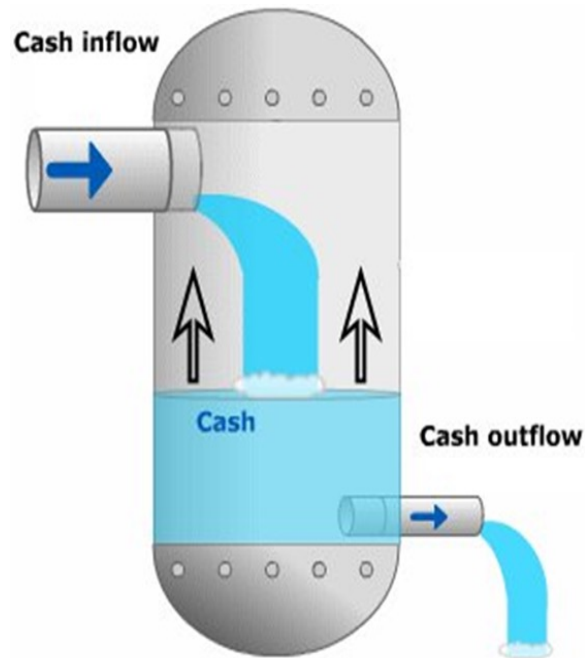
Cash Flow Cycle - Retail



Cash Flow Cycle – BB/Projects



Causes for cash flow problems



- Low profits
- Excess production capacity
- Bad inventory management
- Fluctuations of demand or growing too fast
- Delayed invoicing after product/service delivery
- Bad receivables
- Insufficient cash reserve

How to improve Cash Flow?

- Generate more sales
- Improve the profitability of the business
- Optimize Cash Inflows and Outflows

Cashflows Optimization

Inflow

- Offer flexible ways for payment - credit card
- Ask for pre-payment or % upfront
- Discount for reduced terms of payment
e.g., 15 from 30 days
- Invoicing – accurate and timely to avoid client returning invoice
- Clear language on payment terms

Outflow

- Take advantage of payment terms provided by suppliers –
 - Typical 30 days, do not pay before that
 - Ask for 45 days
- Use credit card for purchases **

Other

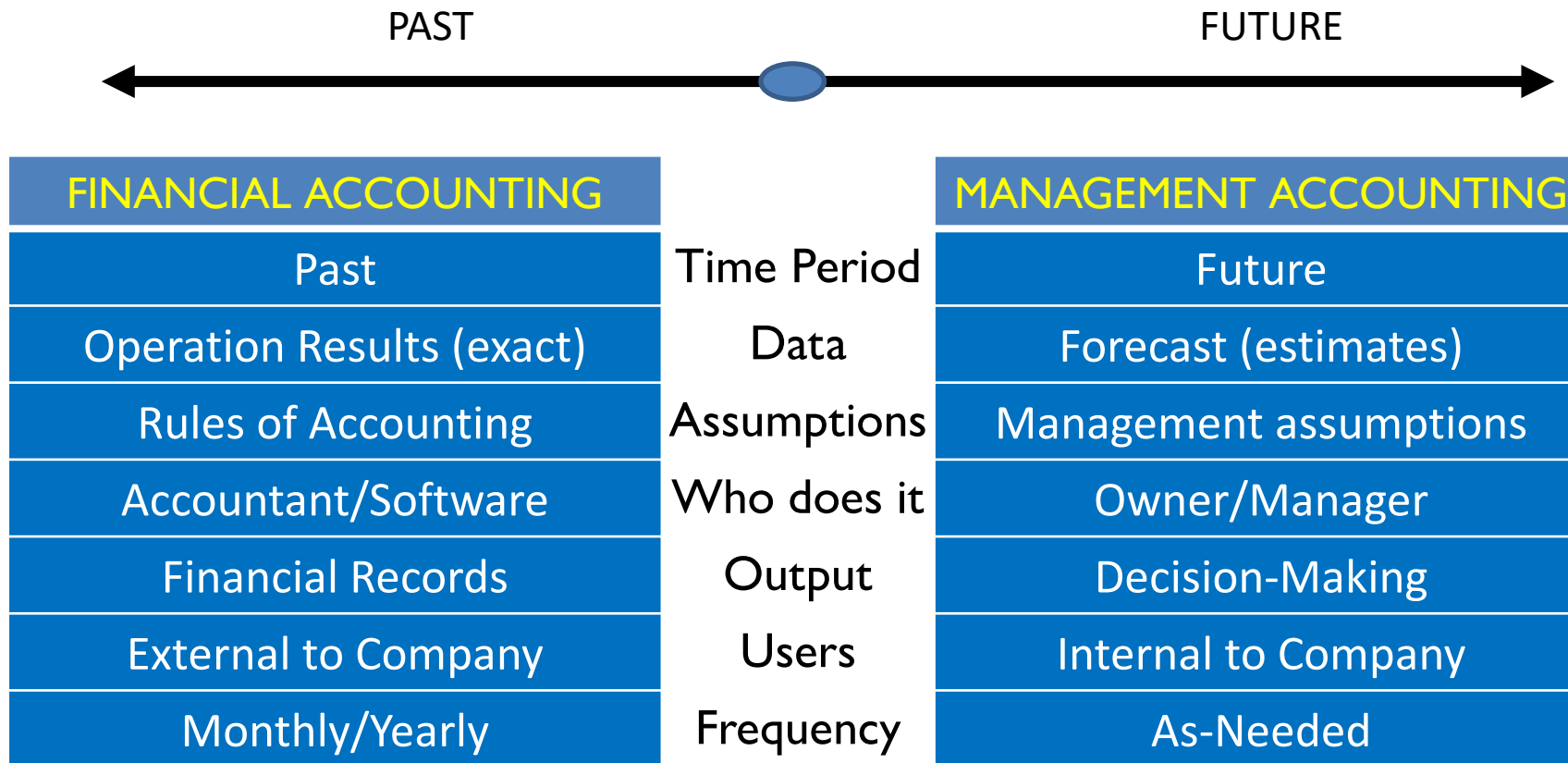
- Implement inventory control
- Liquidate non-performing inventory
- Build a cash reserve that can provide some cushion for unplanned events and put you in a position of strength

Source of funding in case of problems

- Use Business Credit Cards**
- Obtain a line of credit
- Business Loan
- Use personal funds
- Investigate available grants

Financial Management

Profit & Loss Statement format used for different applications



Business Planning is essential for success

- Many Small Businesses do some planning for start up but, in general, there is a lack of systematic follow up during operations
- Business Plans should be simple to be used to guide management and achieving objectives. Sometimes a more detailed plan is required depending if you are looking for investors and/or loans

Defining Performance Targets

Establish a Financial Plan – every year

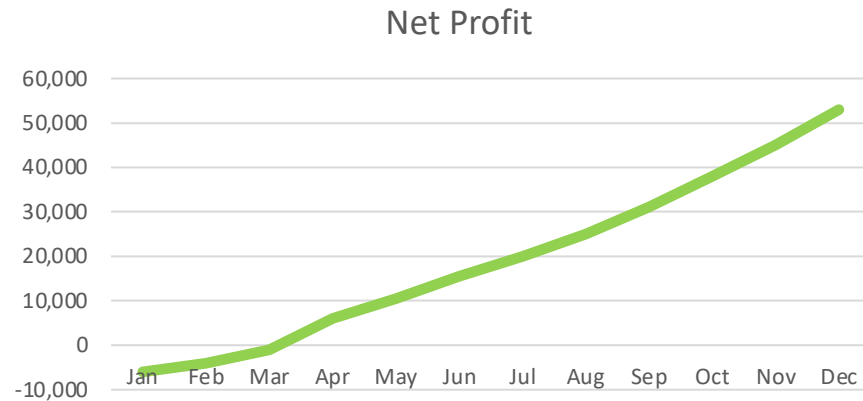
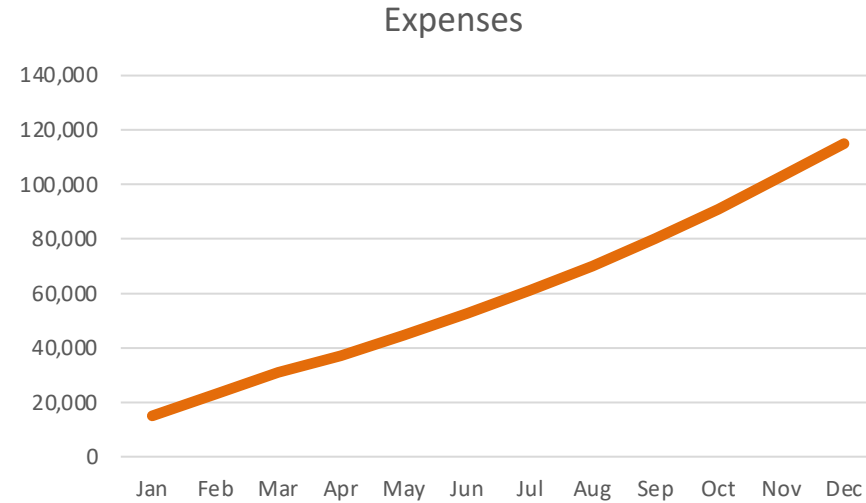
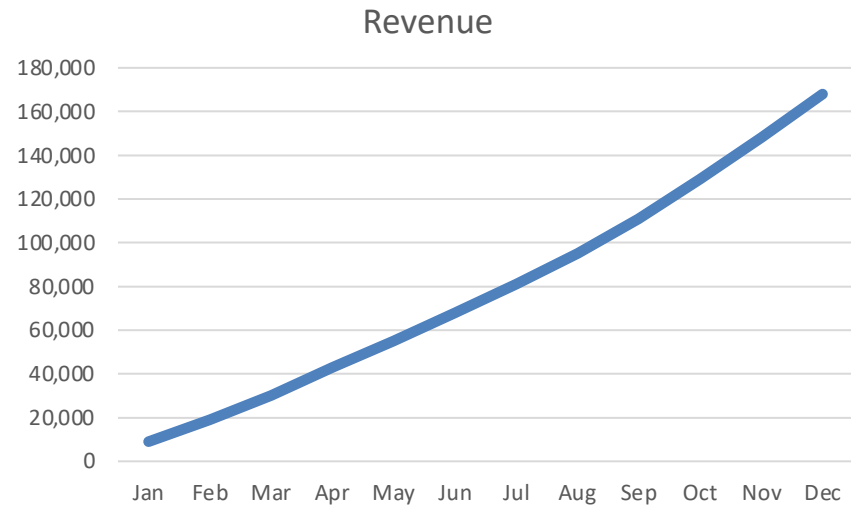
Develop of a forward-looking Financial Model (Financial Forecast) - Profit & Loss format

- It provides a road map for your business performance for the near future. It is an estimate!

Forecasting Tips

- Forecasting involves estimating business future performance. It requires knowledge of the product, market, competition, to create estimates of product demand, corresponding sales, and costs:
 - ✓ Estimated profits for future months
- Owner/Manager's understanding of the business is key – It cannot be delegated!
- It takes practice, and it will not be perfect on your first try
- Best to develop the capability ahead of the need – put together a template specific for your business

Graphical display provides for more efficient review



Tracking your business performance is key

Establish a Financial Plan – every year

Develop of a forward-looking Financial Model – Financial Forecast - Profit & Loss format

- It provides a road map for your business performance for the near future. It is an estimate!

Know your numbers

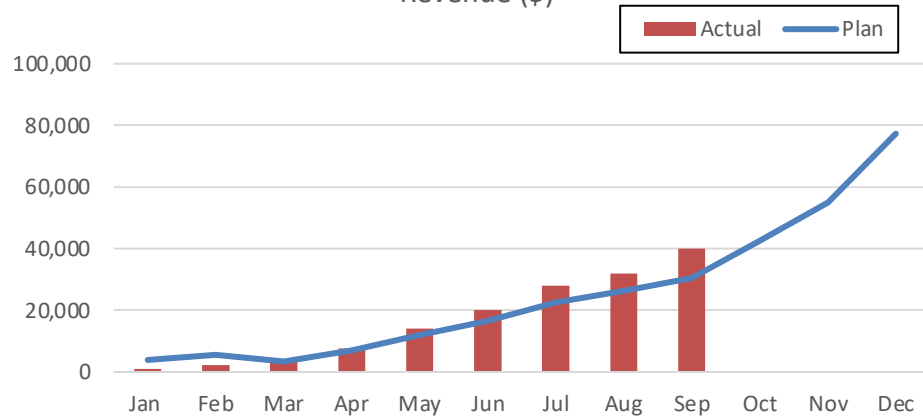
Implement a disciplined and systematic review of key financials

- Track your financial performance
- Understand the reasons why the results deviate from the plan and take appropriate action
- Do it every month

Example - Monitoring Dashboard

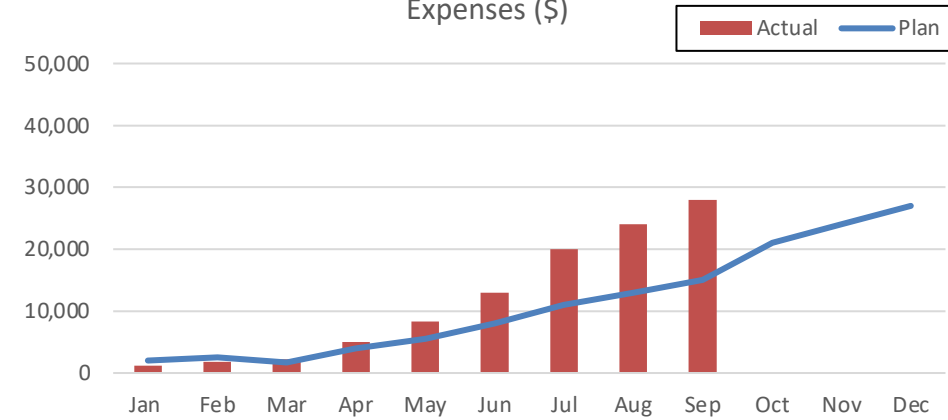
Hypothetical Services IIc

Revenue (\$)



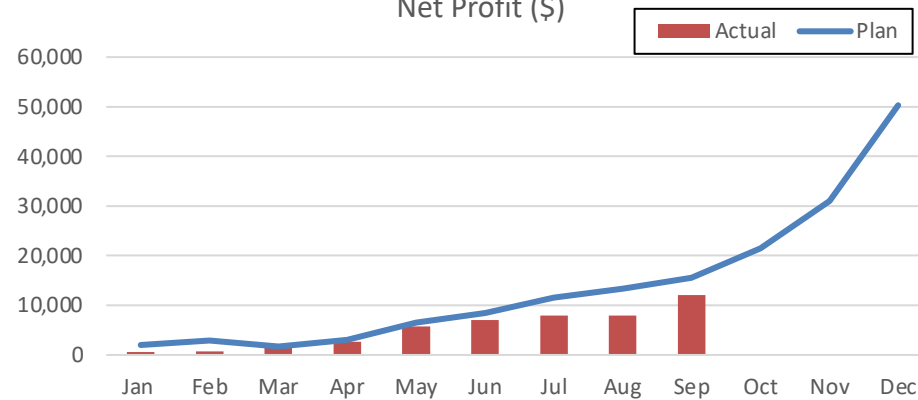
Hypothetical Services IIc

Expenses (\$)



Hypothetical Services IIc

Net Profit (\$)



Cash Flow Example

A simple example of Cash Flow forecast

- Operating Company – cash flow analysis for the next Quarter
- Owner provides estimates sources of cash and expenses for each period

	Month 1	Month 2	Month 3
Sales	5,000	6,000	10,000
Loan	10,000		
Payment Suppliers	2,000	4,000	6,000
Wages and Salaries	5,000	5,000	5,000
Rental	500	500	500
New Equipment			6,000

- Items should be consistent with your P&L accounts

Cash flow forecast – Month 0 Starting point

You are
here

	Month 0	Month 1	Month 2	Month 3
Sales				
Loan				
Payment to suppliers				
Wages and salaries				
Rental				
Equipment				
Net Cash Flow				
Beginning Balance				
Closing Balance	1,000			

Cash flow forecast Month 0

	Month 0	Month 1	Month 2	Month 3
Sales		5,000		
Loan		10,000		
Payment to suppliers		(2,000)		
Wages and salaries		(5,000)		
Rental		(500)		
Equipment				
Net Cash Flow		7,500		
Beginning Balance		1,000		
Closing Balance	1,000	8,500		

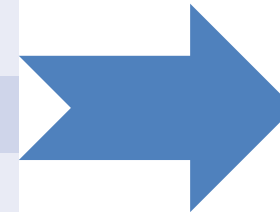
Cash Flow Forecast - Month 0

	Month 0	Month 1	Month 2	Month 3
Sales		5,000	6,000	10,000
Loan		10,000	0	0
Payment to suppliers		(2,000)	(4,000)	(6,000)
Wages and salaries		(5,000)	(5,000)	(5,000)
Rental		(500)	(500)	(500)
Equipment				(6,000)
Net Cash Flow		7,500	(3,500)	(7,500)
Beginning Balance		1,000	8,500	5,000
Closing Balance	1,000	8,500	5,000	(2,500)



Cash Flow Forecast - Month 0

	Month 0	Month 1	Month 2	Month 3
Sales		5,000	6,000	10,000
Loan		10,000	0	0
Payment to suppliers		(2,000)	(4,000)	(6,000)
Wages and salaries		(5,000)	(5,000)	(5,000)
Rental		(500)	(500)	(500)
Equipment				(6,000)
Net Cash Flow		7,500	(3,500)	(7,500)
Beginning Balance		1,000	8,500	5,000
Closing Balance	1,000	8,500	5,000	(2,500)



Plan may not viable

- Delay equipment
- Lease or get used one
- Get a line of credit or Loan
- Better performance

Three Month Rolling Forecast

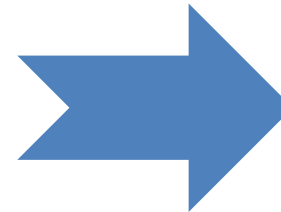
- Actual Month 1 results
- Owner provides estimates sources of cash and expenses for future periods

	Month 1	Month 2	Month 3	Month 4
Sales	6,000	8,000	11,000	10,000
Loan	10,000			
Payment Suppliers	2,000	4,000	6,000	6,500
Wages and Salaries	5,000	5,000	5,000	5,500
Rental	500	500	500	500
New Equipment			6,000	

Cash Flow Update Month 1

Month 1 actual Results

	Month 1	Month 2	Month 3	Month 4
Sales	6,000	8,000	11,000	10,000
Loan	10,000	0	0	0
Payment to suppliers	(2,000)	(4,000)	(6,000)	(6,500)
Wages and salaries	(5,000)	(5,000)	(5,000)	(5,500)
Rental	(500)	(500)	(500)	(500)
Equipment			(6,000)	
Net Cash Flow	8,500	(1,500)	(6,500)	(2,500)
Beginning Balance		9,500	8,000	1,500
Closing Balance	9,500	8,000	1,500	(1,000)



Improvement over previous forecast!!

Key Takeaways

Key Takeaways

- Invest time in developing an efficient business management process
 - Organize operational data and records
 - Establish templates specific for your business
- Smart Management
 - Establish a business plan - simple and clear objectives
 - Track its performance and take time to understand trends and reasons for the results. Take corrective action – **“know your numbers”**
 - Focus on growing sales but keep an eye on Profitability (net profit as % of revenue)
 - Manage such that you never run out of cash but have a solution in place just in case
 - Every month!

Next Steps

- Every journey starts with a first step, establish a commitment to do better with a clear vision for the future of your business
- You do not have to do it alone, seek help from SCORE
- Request a mentor at **buckscounty.score.org**

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