



Understanding Cash Management and Profit Improvement

Washington Small
Business Fair

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Introduction

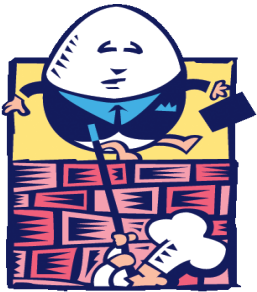
- A common scenario:

- Insufficient cash reserves
- Cannot pay due bills
- Business fails

- No cash, big crash!

- Sophisticated business' processes, & good products and systems are not enough if you have no cash

- BUT.... many small businesses don't have a cash flow plan & don't manage their cash flow



What Is Cash Flow ?

- Cash flowing in from all sources:-

- Sales
- Customers paid
- Borrowings
- Capital introduced
- Sale of equipment

- **Less** Cash flowing out:-

- Operating expenses
- Equipment purchases
- Loan repayments
- Distribution to owners

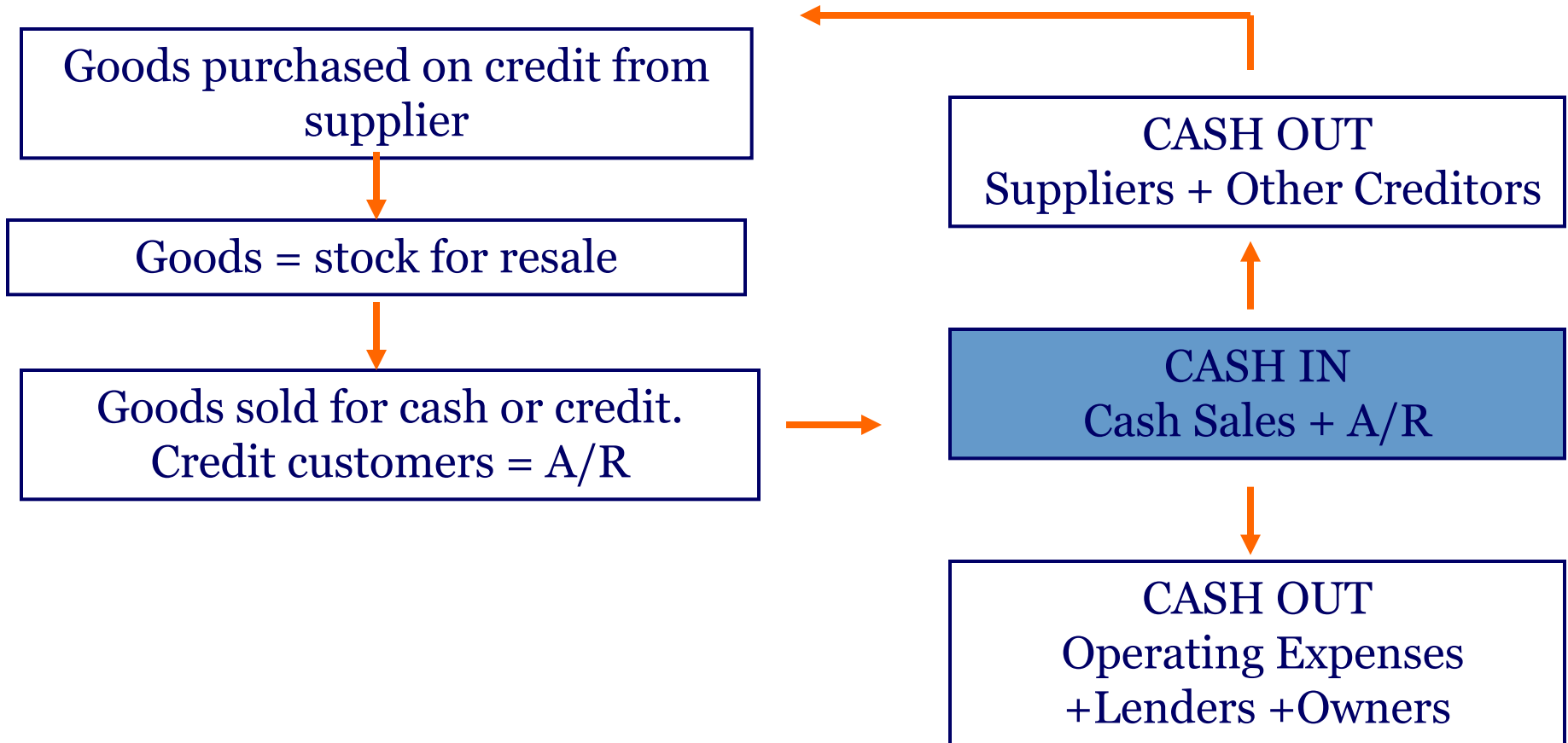
Forecasting vs. Planning

- Forecasting is concerned with what the future will look like.
- Planning is concerned with what is should look like.

Key Requirements Of Your Cash Flow

- Cash flow should be:
 - Positive:
 - Cash Inflows – Cash Outflows = +Net Cash Flow
 - Available:
 - Sufficient cash flow in liquid assets to meet financial obligations
 - Timely:
 - Cash Inflows must come in before Outflows are due

Cash Flow Cycle



Cash Flow – More Than Just Profit

- Businesses can make a profit but have negative cash flow
- Failing businesses can have positive cash flow due to large asset sales
- Business start-ups require large cash outlays to build the asset base = cash flow risk

Methods To Improve Cash Flow – Cutting Costs v Increasing Income

- No business ever shrank its way to greatness
 - Cutting costs may not be the best way to increase positive cash flow
- Real definition of expenses:
 - ‘The cost of resources used to generate your revenue, gross profit and cash flow’

Methods To Improve Cash Flow – Cutting Costs

- Step 1: Identify activities which generate costs
- Step 2: Decide if changes to that activity will affect business income
 - Answer: NO? Then is the activity necessary?
 - Answer: YES? Cost reduction techniques may have adverse affect on business profitability
- **TIP:** Failure to invest in people, marketing and technology can leave you falling behind your competitors

Methods To Improve Cash Flow

– Increasing Income

- Increasing income is the positive option
- Let's review the 4 ways to grow a business:
 - 1. Increase the number of customers of the type you want
 - 2. Increase the number of times customers return
 - 3. Increase the average value of each sale
 - 4. Increase the effectiveness of each process

Methods To Improve Cash Flow – Accelerating Cash Inflows

- Majority of cash inflow is generated from sales of goods and services
- Possible ways to accelerate this income:
 - Upfront payments
 - Reducing Customer A/R payment terms/offer early payment incentives
 - Fixed price / standing orders
 - Increase business from cash customers or incentives for cash payment
 - Faster invoicing procedures

Methods To Improve Cash Flow

– Deferring Cash Outflows

- Delaying payments to suppliers and other service providers:
 - Pay your bills on time but not before the due date
 - However, take advantage of discounts offered for payments made before the due date. Better to pay less rather than later
 - Make the most of trade credit

Cash Flow - One Of The Three Key Measures



- “The three most important things to measure in a business are customer satisfaction, employee satisfaction and cash flow”

Jack Welch, CEO General Electric

Forecasting And Planning Your Cash Flow

- Create a 12 month Cash Flow and Profit Plan that forecasts:
 - Cash requirements
 - Timing of cash needs
 - Possible need for financing
 - Feasibility of bank or other institution loan for the business
 - Availability of excess funds for short-term investment, or long-term asset building

Step 1: Sales Forecasting

- The first step in Cash Flow forecasting and planning is sales forecasting
- Look at what products and services you are going to sell
- Estimate the number of units per month
- Decide on the price that the market will allow
- Examine who will be your customers

Step 2: Direct Costs Of Products & Services

- Take the number of units which you have estimated in your sales forecast
- Determine the composition of each unit
- Cost each part of all the units

Step 3: Expense Forecasting

- Estimate expenses for each of these categories:
 - Variable
 - Activity
 - Fixed
- Other considerations:
 - Recruitment needs. More people= other expenses e.g. office space and IT
 - Possible salary or benefit increases
 - Taxes

Step 4: Review Profit



- Do you have enough profit ?
- If not - you need to look at increasing revenues or decreasing costs

Step 5: Plan Your Cash Flow

- Estimate when you will collect cash
- Estimate when you will pay cash out
- Plan for any balance sheet transactions, such as asset purchases, distributions to owners, financing

Managing The Cash Flow

Two methods to manage and increase the cash flow of your business:

Employ **working capital management** by managing receivables, payables, and inventory

Obtain **financing** or **additional capital**

Even Out The Flow



- Marketing
- Work scheduling
- Pricing structure

Measuring Your Performance

- What you can measure you treasure
- There is always the opportunity to be better
 - If you're not monitoring your actual results regularly, you can't capitalize on that opportunity
- Remember the business environment is constantly changing: what works today won't necessarily work tomorrow

Summary

- Cash Flow = an essential factor in the ongoing health of a business
- Cash flow must be **positive**, **timely** and **available**:
 - *create a Cash Flow Plan / Forecast*
- Measure and monitor your plan on an ongoing basis so you can manage the business proactively

Thank you for your participation!!

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