

CASHFLOW GUIDE



Number love so your business makes money, survives & thrives

ACCOUNTING - GROWTH - MENTORING

Introduction

When you are in the eye of a financial storm what's the one major thing that's going to get your business through it.

That one thing, that protection, that comfort blanket, that financial lifeboat?

Well let me tell you, that one thing is cash, not profits.

Profits are needed, but cash keeps your business lights in times of uncertainty, calm and prosperity.

Your cashflow is not just important for business continuity, but also in times of ambition and growth

What's in This Guide?

Let's gets your Number taste buds going and give you a flavour as to what's inside

Why cash is important for business continuity, and growth

- How cash forecasting puts you in the driving seat of your Business
- The approach to building your own cash story
- Developing your own Numbers confidence and decisions
- Take more control of your numbers to help make money

Your Business Future

The only certainty in life is, death and taxes, cliched but true.

Everything else is estimating.

Not looking at your business future can be challenging, even understandable, but it's not sensible or recommended.

You need to consider your cash coming in, your cash going out and what you're left with. If you don't do that, then however awesome your business is, it won't survive and thrive.

This guide will show you a powerful way to build your cash story. That approach is great for other business practices, but for now let's stick to cash. Building your future cash story is based on

- What we know
- What we think we know
- What we don't know

Using your cash forecast

When you have built your cash forecast, take a step back and check out what it's saying. Once you see what your Numbers, your best business friend is saying then you can make beautiful and meaningful business decisions. If some months (or weeks) look tough, then you have options; if things look positive, you have options.

You know only too well that running your business means that there are times we must step up to plate. Your cashflow forecast helps make your tough decisions easier

What next

Learn how your Numbers will help you make money, survive and thrive. Join our sharing list to keep up to date with the world of Numbers.

Happy cash flowing

Mahmood Reza

Pro Active Resolutions

PLANNING

"If you fail to plan, you are planning to fail!"
Benjamin Franklin

Those wise Benjamin Franklin's words are as true for your business, as they are for anything else. Let's have a look at a few reasons why Planning plays a critical role your business surviving and thriving.

Planning, of which I am a big fan, does a number of helpful things for your business:

- Helps your business navigate a changing and uncertain business landscape
- Reduces the risk of things going wrong for your business
- Wires your brain to give you a powerful mindset
- Gives you a clear route map to get to your business destination
- Is a powerful friend in your business growth toolbox
- Becomes your accountability partner



NUMBERS

Lets' get serious though.
A plan needs numbers, otherwise it's like eating a plate of spaghetti - without the spaghetti; no substance, and there's that empty feeling.

In times of uncertainty, as well as calm and prosperity you need your Numbers.

Your numbers are the most frightening part of your business, because they're that best friend that always tells you the truth. If you want your business to carry on, see what your business future looks like, then come up with your plan of action, and translate it with numbers.

MAKING MONEY

Is your business a hobby?
Do you see your business as making money for you? Making money is about making profits, should be one of your key goals. It's not the only goal, but it has got to figure in there somewhere. If you don't then you won't be able to survive and help your clients. Let me tell you by the way, focusing on sales alone is a waste of time.

You need to be serious about making money in your business, by money we mean profit. If you're not serious about making money, then you've got a time-consuming expensive hobby on your hands.

A profitable business does not mean that your business will survive and thrive. Profit occurs when we sell something for more than it costs us to provide it.

That make us profitable, but until the customer pays you, then you can't pay for things. This means that even a profitable business can run into trouble if the cash dries up.



CASH

Cash, cold hard cash is what gets paid into your bank account, it's factual, and is the lifeblood of your business.

Your business needs for a whole bunch of things, typically, cash is needed for

- Paying your suppliers
- Buying equipment
- Paying off your loans
- Paying staff
- Paying taxes
- Paying yourself, that's got to be in there

Running out of cash, access to cash or poor cash flow is squeaky bum time. Your business will survive if your cash flow supports it. Once the cash runs out, or access to it dries up then it is the end of the business road, do not pass go

It's not for nothing that the phrase *"Revenue is vanity, profit is sanity, and cash is reality"*, rings true.

With that in mind, you need to put together a cash flow forecast. In essence what's your business landscape likely to look like over the coming few months. Once you have an idea, however rough and ready then you will make stronger and more informed decisions.



COSTS

Knowing your costs makes you money, this sounds like a statement of the obvious. The thing with may seem obvious to others, can get forgotten.

Having a great product, customer focus, working hard, marketing, selling are all important. The bottom line though is that you need to become more friendly with your numbers.

Ignore your numbers and crash, bang, wallop becomes a real business possibility.

KNOWING YOUR COSTS MAKES YOU MONEY

and helps you with other important things. These important things include

- Cash forecasts
- Calculating profit, current and future
- Prices to charge
- Break-even
- Budgeting
- Controlling what you spend
- Customers to focus on
- Knowing how much tax you need to pay

Running your business means you will make decisions, and plan. You ultimately manage and lead your business, to do that you need to get more friendly with your numbers.

A real cool way to look at costs, and get great business insights, is see they behave. I don't mean whether they're naughty, or nice, but how they react according to what your business does.

BUSINESS ACTIVITY

Start off by looking at and describing your business in terms of activity. You can then match your business activity with your costs.

Let's build on that and look at that more closely by showcasing examples of businesses and possible activity

For example:

- Hospitality sector
Customers served; meals prepared
- Retailing
Orders placed; number of items made
- Consulting firm
Client numbers, workshops delivered

COSTS BEHAVIOUR

Cost behaviour is how your costs react and change based on your business activity. The power of this insight and knowledge is numbers gold.

The main categories of costs are:

- Fixed costs
- Stepped fixed costs
- Variable costs
- Mixed costs

FIXED COSTS

Fixed costs are those that stay the same, whatever the level of your business activity. These costs stay the same if you don't serve any meals, have no customers, or make no products.

For example, fixed costs would be

- Wages and salaries
- Insurance
- Rent
- Leasing charges

Fixed costs are also called non-controllable or unavoidable.

VARIABLE COSTS

Variable costs don't stay static, and fluctuate according to your business activity. Let's refer to the earlier illustrations, i.e. not serving meals, no customers, or making no products.

For example, variable costs would be:

- Inventory
- Wages and salaries – paid on the basis of piecework, hourly rate etc.
- Bonuses
- Sales commissions

Variable costs are also called controllable costs or avoidable

STEPPED FIXED COSTS

These remain the same over a range of activity and then increase once a certain level of business activity passes. For example, if your business is growing, then at some tipping point you will need additional staff, or possibly a bigger office space.

MIXED COSTS

Your business will have some costs, which aren't purely fixed or purely variable. Those costs will have a fixed and variable element. For example, your telephone costs are made up of a rental element, which is fixed, the calls are variable.

Other examples of mixed costs are:

- Gas and electricity costs
- Photocopier rentals

In an ideal world your business insights and use will be improved if your mixed costs can be split into the fixed and variable elements. If the costs aren't big numbers, don't sweat it, treat them as fixed

Understand what your costs are, according to how they behave.

Knowing your costs makes you money, helps your planning what's not to love?

The power of this insight and knowledge is numbers gold.



BUILDING YOUR CASH FORECAST

ACCURACY

Many of you will be thinking, who knows with certainty what the future looks like. One hundred per cent agreement from me. However, not even taking a financial peek beyond today or the coming week may be understandable, but it's a ridiculous business practice.

The cash numbers follow your view, based on what you know, what you think you know and what you don't know about your business. Build your cash flow forecast as though it was your business weather map.

Your cash future can be seen through the prism of a changing and volatile weather system, a force ten hurricane, heavy downpour, occasional shower, or permanent sunshine.

WHAT YOU KNOW

Start with what you know, that is your customers and your cost commitments. Business activity will not completely stop, some customers will still but what you sell, some suppliers will still sell you what you need.

Look at your customer base, what is still pretty certain, offline and online, when will it happen, and how much money will come in.

Costs are easier to identify, and this part of the exercise is likely to be more on the sad side, but persevere, it's still necessary.

WHAT YOU THINK YOU KNOW

Look at your customer base, what do you think your current customers will buy from you, does that depend on what is happening to their businesses. What you don't know can be made more certain by talking to them, dialogue can't hurt.

Are there potential customers in the pipeline, are there warm leads that will become active, or potential that evaporates? What might that look like in terms of money coming in, how much and when.

Customers in the 'what you think you know' category, will have costs. More customers = more variable costs for your business, but no impact on your fixed costs.

WHAT YOU DON'T KNOW

There's a lot we don't know.

If someone says they know what will happen then walk on by, they are talking rotten cucumbers.

Don't dwell on the stuff you don't know, use that maybe in shaping your approach to 'what you think you know, but don't dwell on what you don't know.

NEXT STEPS

Gather together, 'what you know' and 'what you think you know'. You want this measured in cash terms, typically what comes in and out of your bank account.

Ideally you are doing the number heavy lifting using tools like spreadsheets to do the number heavy lifting work, save the brain space for the thinking about your business.

An example of what the end game can look like is summarised below. Once you know what the next few months looks like you can then make some informed and decisions.

For example, different ways to get more cash in, tighter credit control, delaying payments, eliminating costs, overdrafts, access to other funding.

	April 2020	May 2020	June 2020
	\$	\$	\$
Receipts (Cash In)	2,000	1,000	1,000
Payments (Cash Out)	1,800	1,400	1,400
Difference (in less Out)	200	(400)	(400)
Cash at the start	500	700	(300)
Cash at the end	700	300	(700)

Be sensible, careful and think through the consequence to your business from your decisions. If you are going to delay paying suppliers then talk to them, and don't piss them off; where you are going to cut costs, does this affect your ability to trade in the future, short term pain relief may mean long term anguish.

It is vital to know who owes you money, when the customer should be paying and when it is overdue. We should also monitor cash flow, and ideally prepare a forecast cash statement on a rolling twelve-month basis.

Our cash flow forecast should show us by month:

- WHEN cash comes in
- WHEN cash goes out
- Surpluses or shortfalls of cash



MANAGING YOUR CASHFLOW

It's good business practice to have a good cash flow management strategy.

Include the following five key elements:

1

CHECK AND MANAGE PROFITABILITY

Evaluate your current pricing and profitability on your products and services, look at your sales mix, where efficiencies can be made and where your costs are being spent.

A decline in profitability can be caused by an increase in costs and no increase in revenue, an impact of discounting or a change in the mix of goods and services provided.



2

PRODUCE A CASHFLOW, MONITOR AND MANAGE IT

Ideally prepare a forecast cash statement on at least a rolling twelve-month basis.

Our cash flow forecast should address three important areas:

WHEN do we receive and pay cash?

WHAT do we receive and pay cash from/to?

HOW MUCH do we receive and pay cash from/to?

4

HAVE AN ACCOUNTING AND BUSINESS SYSTEM FIT FOR PURPOSE

If you have regular inflow and outflow of cash, you can't manage it in your head. Keep accurate up-to-date records of every invoice and transaction. Online (cloud) software like Xero and QuickBooks will make this easier, so consider investing in a package if you haven't done so already.

When set up and managed properly cloud accounting like Xero will give you and your business up-to-date and current financial information on profitability and cash flow, and is a powerful ally in keeping on top of credit control.



3

MANAGE THE CREDIT YOU GIVE

Make sure you have an effective credit control policy, don't adopt the ostrich look.

Set out reasonable payment terms and do not be afraid to ask for partial or full payment up front.

Payment terms can be up front, on delivery, or several days from invoice.

You may not feel comfortable doing it but keep on top of late payments and chase. Send reminder invoices promptly and follow up with a phone call if needed.

5

MAKE A CONTINGENCY PLAN

An overdraft or credit card facility can help to bolster any shortfall, but if your plan is to rely on these in the event of a cashflow problem, ensure your bank is willing to provide them, particularly at short notice.

And remember – you aren't in this alone. Talking to your accountant or business advisor about the best way to manage cash flow can help you to build a better business.

*Numbers will always be
your best business friend;
they won't lie to you.
You need your friends in
bad times,
as well as the good.*

We hope you found this guide useful.
If you want to be part of our Numbers
family, then join our sharing list to stay informed
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