

Cash Flow

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If your business has the following characteristics:

1. It has mainly credit sales
2. December and early January are typically periods of zero or very little by way of sales,

then your February month end will be the worst from a cash-flow perspective. This is because during December and January you will have payments coming in from credit sales made in October and November. Having 'no to low' sales during December causes the February month end cash-flow problem.

To avoid this you need to plan now.

I suggest a rolling 14-week cash flow forecast. A simple spread sheet will suffice. Why 14 weeks? Because it takes you into the fourth month ahead. Why weekly? We're talking small business here – how deep are your pockets?

Once you have the spread sheet prepared you can populate it with the numbers that you know – like the regular payments that you have to make. On the receipts side you can enter the payments you anticipate receiving relating credit sales already made. For the weeks further ahead you will just have to make (hopefully) educated guesses.

You need to update your cash-flow forecast every week. You'll get better at looking ahead and putting in the numbers as you get more practice. Remember that cash flow is the 'oxygen' of your business – if it stops the business dies.

It is true that some people have all the cash flow information in their heads and manage for years on end without using spreadsheets (or paper based forecasts) – I know someone who has successfully managed the finances of a small business for the past 20 years without using a cash-flow forecast such as I am suggesting above. But this is exceptional – you need to SEE on paper what lies ahead.

Even if you do have all the numbers in your head it will be useful to show others involved your business what is in store for the business from a cash-flow point of view and draw to their attention any areas where they can do something positive – or stop doing negative things.
More cash-flow planning – less cash-pain.

Monitor and plan your oxygen flow!