Standard Chartered

Women in Business Resource Centre

Controlling Cash Flow

Your Cash Flow Forecast is perhaps the most important forecast you will ever do in your business. It is the monthly estimate of the cash received and cash disbursed each month.

Cash received can come from the following sources: Cash Sales, Collection of Accounts Receivable, Tax Rebates, Sale of Capital Assets, Cash investments into the business, Proceeds of Bank Loans (Both term and credit line advances).

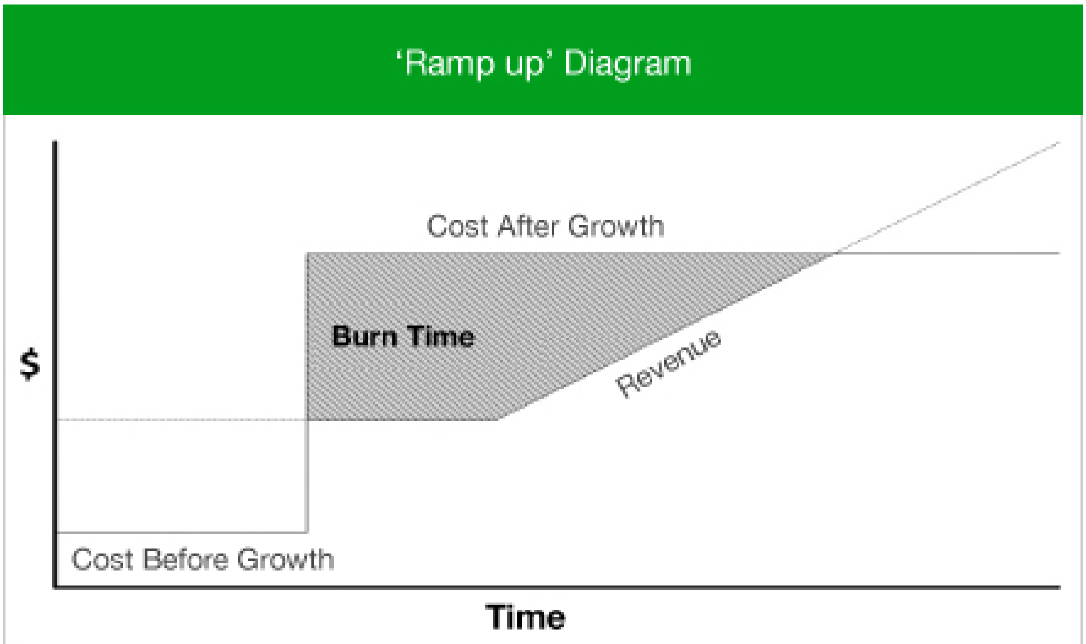
Cash can leave the business in the following ways: Cash expenses and purchases, Payment of accounts or expenses payable, Tax installments, Cash purchase (or down payment) of capital assets, Dividends, Loan repayments.

When a business is growing, the cash flow is one of the most important financial areas in which to plan and to manage. There are four main reasons for cash flow problems in a growing company:

- *Sales growth does not come quickly enough for the increase in overhead.*
- *Accounts receivables absorb too much cash.*
- *Inventory levels grow and absorb excessive cash.*
- *Too much working capital (cash) is used to finance a fixed asset.*

Ramp Up

This concept is critical both in business start-up and in businesses that grow and experience an increase in overheads for the business, such as increased staff, equipment lease, advertising or other fixed costs. It means the core amount required to run the business every month. This cash goes out regardless of the level of sales. We can look at this graphically in the diagram below.



Things to consider when adding overheads

- *Treat the expansion program as if it were a new business. It is a good idea to do a separate cash flow forecast and to determine the cash needs of the new project.*
- *When determining the "ramp-up" of the project, remember that the time taken for the expansion happens right away, and is usually more expensive than anticipated. The revenue and subsequent cash receipts usually ramp up more slowly than anticipated. A best and worst case scenario is a good way to do the plan for the new project*
- *If you need bank financing for the expansion, you should develop a mini-business plan showing the effects, both long term and short term, of the expansion. As we have seen in the previous examples, sometimes companies need financial assistance to facilitate growth. Your banker can help you find the right kind of financing for your business.*

Seasonality and growth – timing your growth

The time when you embark on a growth strategy can make a huge difference. Depending on the "seasonality" of your business revenue, there are better and worse times to begin your growth period. Seasonality is simply the differing levels of revenue that occur during different months of the year. Some businesses are very seasonal. Some are fairly stable (Ladies Clothing is a highly seasonal industry whereas Grocery stores have more similar monthly sales). In a highly seasonal industry, choosing the wrong time for expansion can be devastating to your cash flow – as you will have to wait too long for your revenue growth, leading to a cash flow crunch.

Things to consider when timing your growth

- *It is crucial to know two things when determining when to time your expansion – when do customers actually buy, and when do customers make buying decisions. For example, people do Christmas buying in December – but they do their Christmas shopping in November and December. This means that you must be in a position to influence their decision in November.*
- *The more volatile the monthly pattern, the more important the seasonality issue will become. Retail fashion was chosen for the example because it is very seasonal and therefore illustrates the point quite effectively.*
- *If you can't time your expansion properly, then don't do it.*