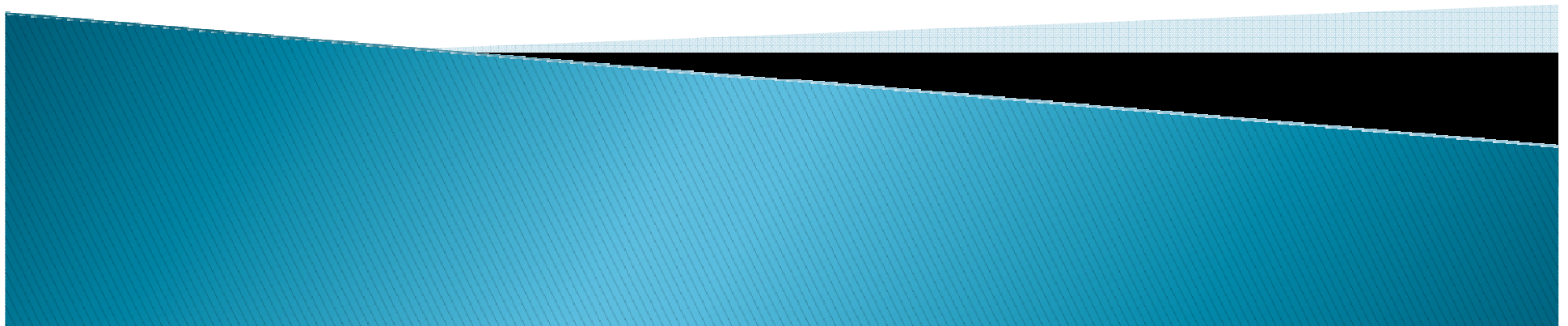


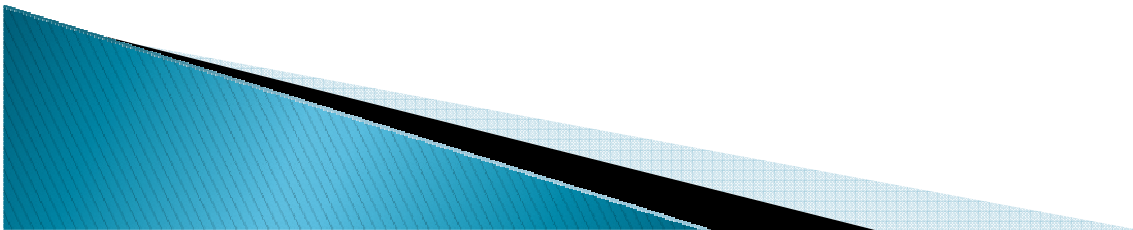
# CASH FLOW.....

Is your Business Fit for Finance ?  
Tuesday 24th November 2009  
Lindsay Angus – Angus Jones Limited



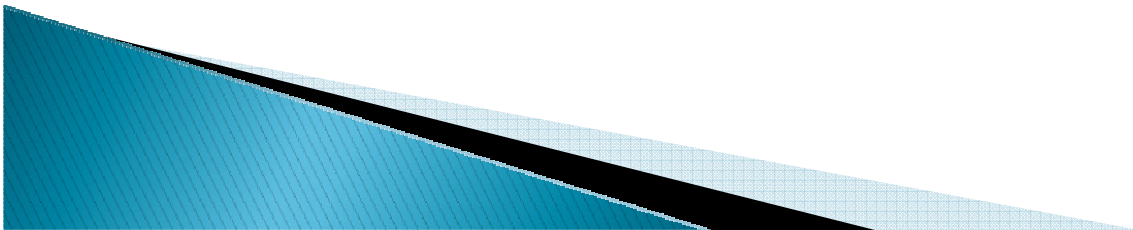
# Cash Flow.....

- ▶ A look at day to day cash flow
- ▶ The 1% rule – minor adjustments
- ▶ Practical tips to improve cash flow
- ▶ Cash flow to present to your bank/funder



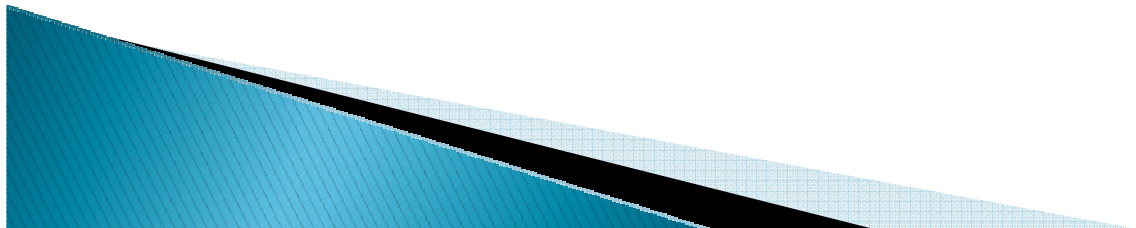
# Cash Flow.....

- ▶ If you do not plan and forecast with confidence, your chances of failure are virtually guaranteed – fail to plan –you plan to fail!



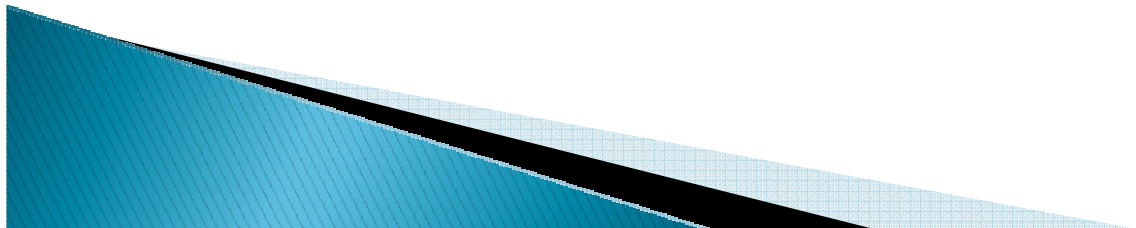
# Present Climate.....

- ▶ In a “credit crunch” environment – where access to liquidity is restricted, cash management becomes critical to survival.
- ▶ Cash flow is the Life Blood of a business and an indicator of the health of the business
- ▶ Many people plan when they start a business then do not keep them up to date – change them – measure actual against budgets.
- ▶ Can you answer the question now.....how much cash has your business got/need? How long will it last ?



# Cash Flow.....

- ▶ Why produce a forecast ?
- ▶ Use templates available – businesslink/banks
- ▶ To quantify how much cash you need
- ▶ To be always prepared for discussions with your team in the business – the bank and to see if you are going to break banking covenants
- ▶ To help you fulfil your obligations as a Director – consider legislation changes
- ▶ To force you to review every aspect of your business.



# Profit & Loss and Cash Flow

- ▶ Profit & Loss
- ▶ Monthly sales
- ▶ Raw Materials

- ▶ Labour
- ▶ Overheads
- ▶ Bad debts

- ▶ Contingency

Profit & Loss

- ▶ Cash Flow
- ▶ When will receive cash
- ▶ When will we pay out

- ▶ Pay in the same month
- ▶ When will we pay out

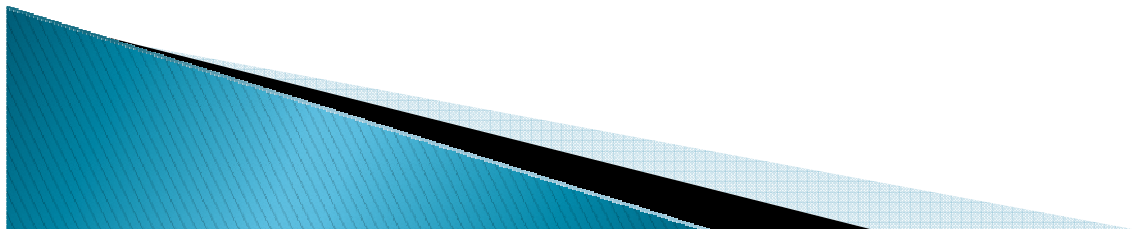
- ▶ Deduct from cash received forecast

- ▶ Build one in!

Cash Flow

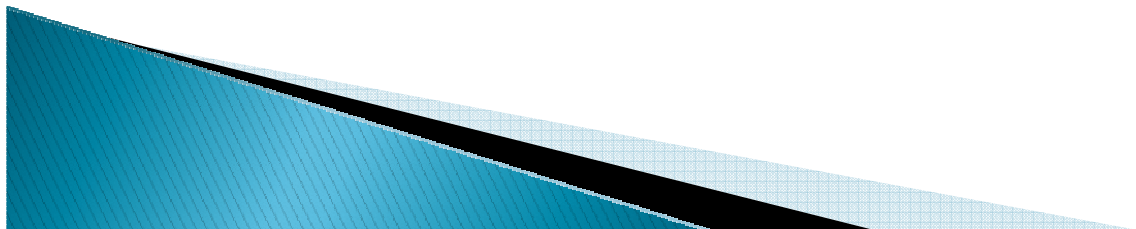
# Profit & Loss – Fixed costs – variable costs – what is left !

	January	February	March
Sales	10,000	7,000	11,000
Raw Materials	<u>5,000</u>	<u>3,500</u>	<u>5,500</u>
Gross Profit	5,000	3,500	5,500
Wages	2,000	1,400	2,200
Rent	500	500	500
Telephone etc	<u>250</u>	<u>250</u>	<u>250</u>
Profit	<u>2,250</u>	<u>1,350</u>	<u>2,550</u>



# Cash flow Forecast : Example

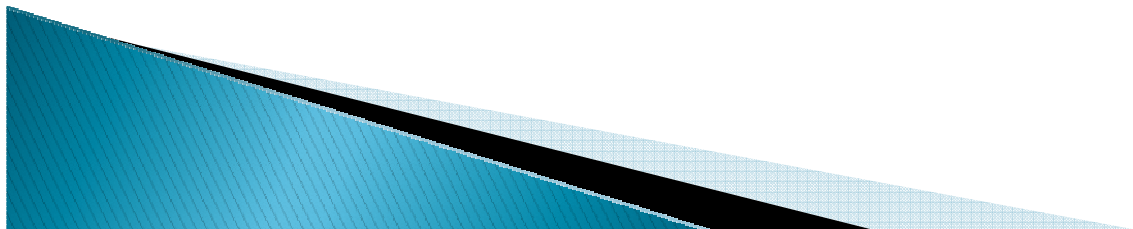
	January
Sales Receipts	Start up Costs
Raw Materials	Not paid for yet
Wages	(2,000)
Rent	Not paid for yet
Telephone etc	Not paid for yet
Loan repayment	( 200)
Movement of cash	(2200)
Bank Balance B/F	10,000 Loan
Bank Balance C/F	7800





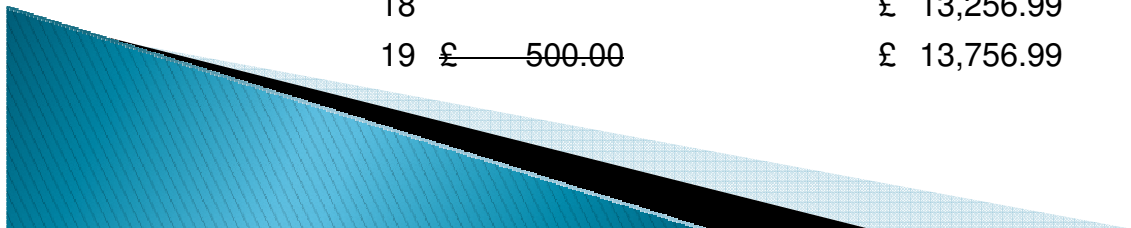
# Cash Flow forecast: Example

	January	February	March	April
Sales Receipt	?	?	11750	8225
Raw Material	?	(5875)	(4112)	(6463)
Wages	(2000)	(1400)	(2200)	(2200)
Rent	Free period?		(1500)	
Telephone	Quarterly		( 750)	
Loan Instalm	( 200)	( 200)	( 200)	( 200)
<b>Movement</b>	<b>(2200)</b>	<b>(7475)</b>	<b>2988</b>	<b>( 638)</b>
Bank Balance	10,000	7800	325	3313
C/Forward	7800	325	3313	2675
<u><b>You are still</b></u>	<u><b>£7325 down</b></u>	<u><b>After 4 mths</b></u>		



# Cash flow forecast –A simple model – using cash in – cash out

June	Money In	Money out	Balance	Creditor	Customer
1			£ 12,000.00		
2			£ 12,000.00		
3	<del>£ 3,525.00</del>		£ 15,525.00		Bloggs Eng
4			£ 15,525.00		
5	<del>£ 1,000.00</del>	£ 500.00	£ 16,025.00	Insurance	SEEDA
6	<del>£ 300.00</del>	£ 800.00	£ 15,525.00	MSS	Yellow Prism
7	<del>£ 600.00</del>	<del>£ 2,200.00</del>	£ 13,925.00	Wages	Focus
8	<del>£ 390.00</del>	<del>£ 1,569.00</del>	£ 12,746.00	Consultancy	Modeo Ltd
9	<del>£ 3,800.00</del>	£ 886.01	£ 15,659.99	Telecoms	Roly Limited
10	£ 350.00		£ 16,009.99		Foot Plc
11			£ 16,009.99		
12			£ 16,009.99		
13			£ 16,009.99		
14		<del>£ 43.00</del>	£ 15,966.99	Stationery	
15			£ 15,966.99		
16		<del>£ 2,710.00</del>	£ 13,256.99	BMF membership	
17			£ 13,256.99		
18			£ 13,256.99		
19	<del>£ 500.00</del>		£ 13,756.99		Man Eng



# A simple model – cross refer to the bank Statements – daily/weekly

June	Money In	Money out	Balance	Creditor	Customer
1			£ 12,000.00		
2			£ 12,000.00		
3	£ 3,525.00		£ 15,525.00		Bloggs Eng
4			£ 15,525.00		
5	£ 1,000.00		£ 16,525.00		SEEDA
6	£ 300.00		£ 16,825.00		YellowPrism
7	£ 600.00		£ 17,425.00		Focus
8	£ 300.00		£ 17,815.00		Modeo Ltd
9	£ 3,800.00		£ 21,615.00		Roly Limited
10	£ 350.00		£ 21,965.00		Foot Plc
11			£ 21,965.00		
12			£ 21,965.00		
13			£ 21,965.00		
14		£ 43.00	£ 21,922.00	Stationery	
15			£ 21,922.00		
16		£ 2,710.00	£ 19,212.00	BMF membership	
17			£ 19,212.00		
18			£ 19,212.00		
19	£ 500.00		£ 19,712.00		Man Eng
20	£ 3,900.00	£ 500.00	£ 23,112.00	Insurance	TBAT
21	£ 500.00	£ 800.00	£ 22,812.00	MSS	Flowers Ltd
22	£ 7,248.00	£ 2,200.00	£ 27,860.00	Simon	SEEDA
23		£ 1,569.00	£ 26,291.00	Sam	
24		£ 886.01	£ 25,404.99	Telecoms	
25		£ 598.00	£ 24,806.99	PAYE	
26		£ 200.00	£ 24,606.99	Printing	
27			£ 24,606.99		
28		£ 12,000.00	£ 12,606.99	Bonuses	
29		£ 271.72	£ 12,335.27	Mobiles	
30		£ 684.00	£ 11,651.27	Rent	
31		£ 112.90	£ 11,538.37	Cleaner	
	£ 22,113.00	£ 22,574.63	£ 11,538.37	£ 8,000.00	O/D Limit

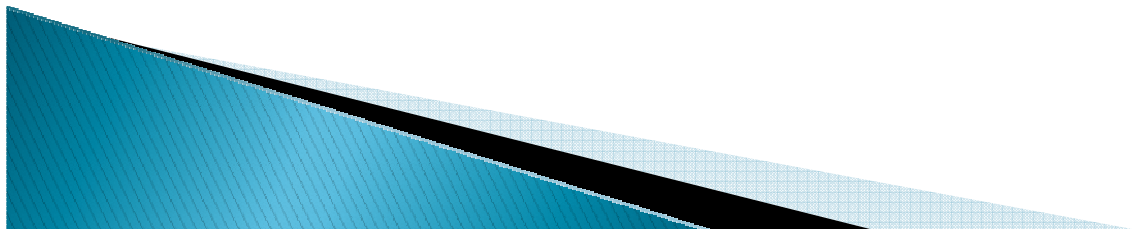
- ▶ Update continuously
- ▶ Put in all costs and income
- ▶ Be realistic with dates for cash in
- ▶ Consider cash in with no vat, cash out with vat – a nice surprise at the month end
- ▶ Run at least 3 months
- ▶ Discuss content with key players in the company

Track the cash

Keep up to date

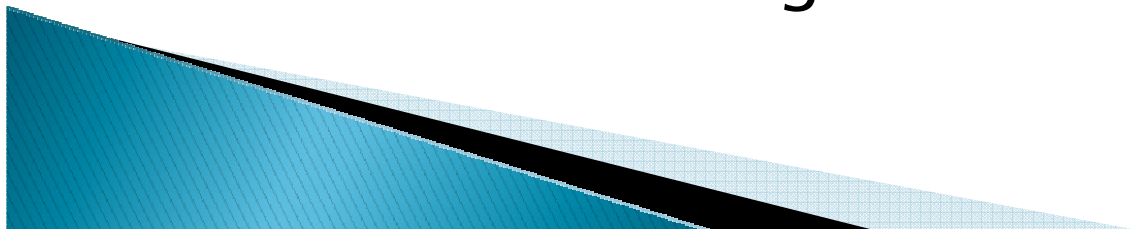
# Cash Flow

- ▶ When does the cash come in ?
- ▶ Make sure you invoice for everything asap
- ▶ Is 30 days payment really 60 days? ( The average plc takes 44 days to pay – worst 200 days!)
- ▶ In the cash flow, put in real cash in days
- ▶ base receipts on each customer not an average
- ▶ How many debtor days do you really operate on?
- ▶ 
$$\frac{\text{debtors} \times 365}{\text{annual sales}} = \text{Debtor days}$$
- ▶



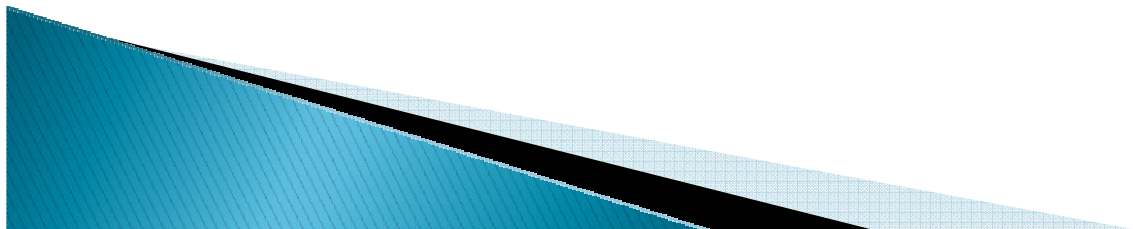
# Cash Flow

- ▶ Always send a dated statement to each customer at the month end – with terms
- ▶ Talk to customers to make sure you know when they are paying – no confusions – are your terms and conditions clear and on invoices, quotes, sales literature, price lists.
- ▶ Get tricky customers to commit to pay and confirm in writing – check them out!



# The 1 % Rule – an Example

- ▶ A company has the following figures :
  - ▶ Turnover £1,000,000
  - ▶ Direct Costs £450,000
  - ▶ Gross Profit £550,000
  - ▶ Administration £500,000
  - ▶ Net Profit £50,000
- ▶ What happens if each quarter we : Increase Sales by 1%, Decrease direct costs by 1% and Decrease overheads by 1 % ?



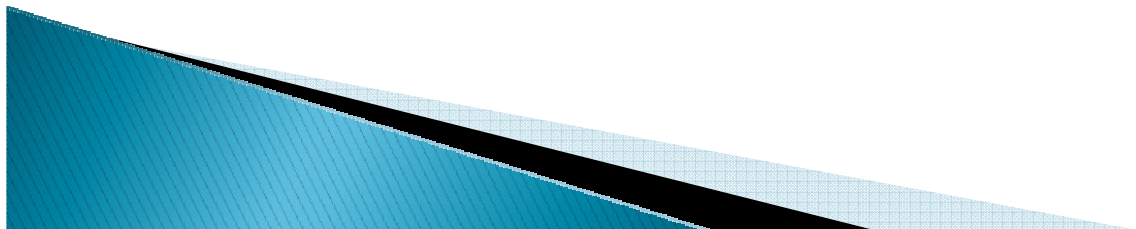
# The 1 % Rule – Small changes = Big results!

		%	% change	Effect after 3 months	% growth after 3 months	Repeat the exercise	% growth after 6 months	Repeat the exercise	% growth after 9 months	Repeat the exercise	% growth after 12 months	Repeat the exercise	% growth after 15 months
Sales Turnover	£1,000,000	100	1	£1,010,000		£1,020,100		£1,030,301		£1,040,604		£1,051,010	
Direct Costs	£450,000		-1	£445,500		£441,045		£436,635		£432,268		£427,946	
Gross Margin	£550,000	55		£564,500	3	£579,055	5	£593,666	8	£608,336	11	£623,065	13
Overheads	£500,000		-1	£495,000		£490,050		£485,150		£480,298		£475,495	
Net Profit	£50,000	5		£69,500	39	£89,005	78	£108,517	117	£128,038	156	£147,570	195

The profit has increased from £50,000 to over £147,000 in months!!!

# Controlling Costs

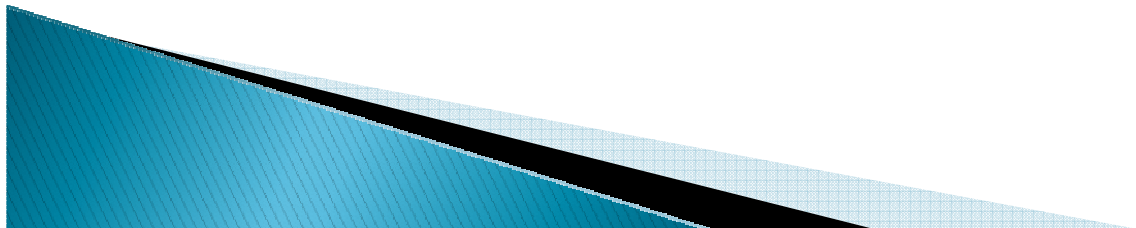
- ▶ Shop for better deals on raw materials and other goods – your customers will be.
- ▶ Negotiate later payment on raw materials and other goods – have you the best deal ?
- ▶ Remember the 1% rule – small changes = big results
- ▶ Don't waste money – be hard and control the cheque book – be frugal.
- ▶ Remember your debtors are using YOUR cash





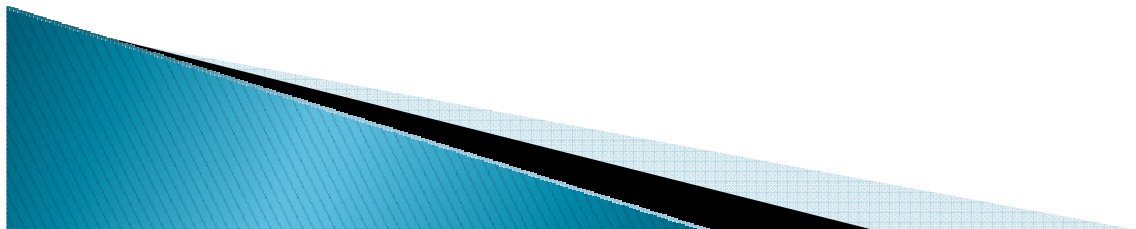
# Controlling costs

- ▶ If you need staff reductions, do it once, well & do enough. Use a HR advice line – care re Employment Law. Same with recruiting.
- ▶ Lead from the front – don't take expenses, freeze pension payments, defer dividend.
- ▶ Defer capital expenditure – do you need to spend? Will capital spent make money
- ▶ Put Bad Payers on STOP – you are not a charity! Care re credit references – when did you last check a customer out ?



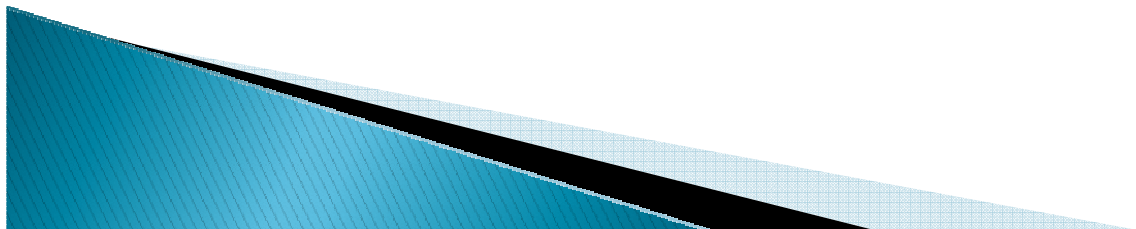
# Building a cash flow forecast

- ▶ Set up the profit and loss : include
- ▶ Sales
- ▶ Direct costs– raw materials, direct labour
- ▶ Check the gross profit margins
- ▶ Admin costs – salaries for staff, rent, rates
- ▶ telephone, depreciation, professional fees, admin, training, recruitment etc.
- ▶ Check the net profit margins.



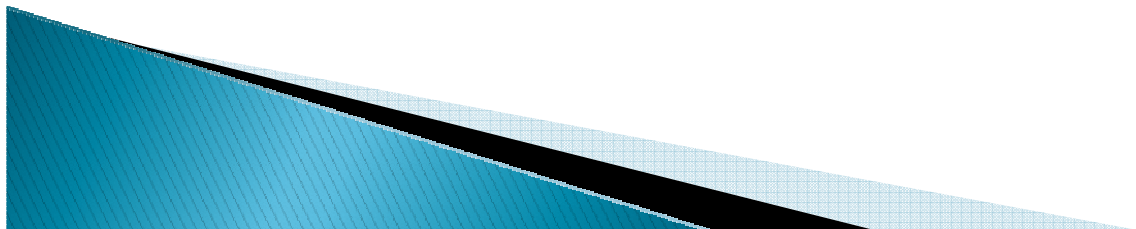
# Building a cash flow forecast

- ▶ Work out the vat and build the cash flow
- ▶ Sales – when will the cash come in ?
- ▶ Costs – what do we pay and when ?
- ▶ Rent – quarterly in advance
- ▶ Labour – in the month it happens
- ▶ Utilities – 5% vat – take HMRC advice
- ▶ VAT – cash account or quarterly
- ▶ When do you pay your suppliers ?
- ▶ Do you have any loans to pay, capital purchases ?



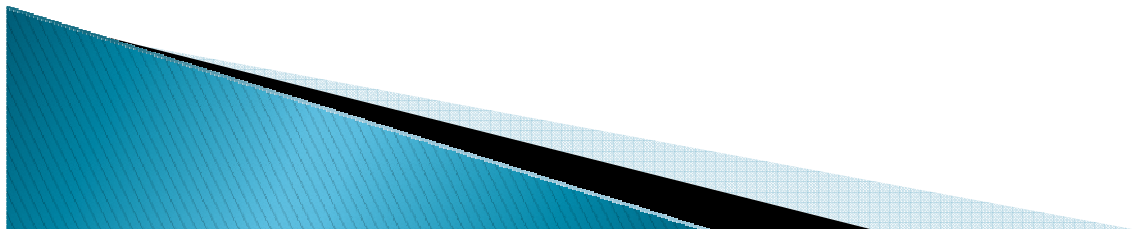
# Building a cash flow forecast

- ▶ Work out the balance sheet :
- ▶
- ▶ Fixed assets – 1,3,5 or 10 year depreciation, work it all out on sets of items
- ▶ Current assets – cash, who owes you money,
- ▶ Stock, etc.
- ▶ Current liabilities – overdraft, loans, trade creditors, taxation
- ▶



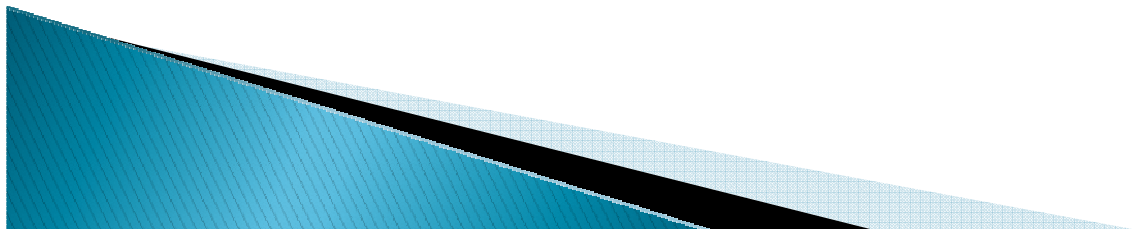
# Building a cash flow forecast

- ▶ Sophisticated – business modelling – start to finish – starting with Sales & marketing
- ▶ Marketing
- ▶ Sales
- ▶ Raw Materials / Direct / Labour / Stock
- ▶ Overhead staff / Overhead costs
- ▶ Product development
- ▶ Profit & Loss
- ▶ VAT
- ▶ Cash flow
- ▶ Balance Sheet



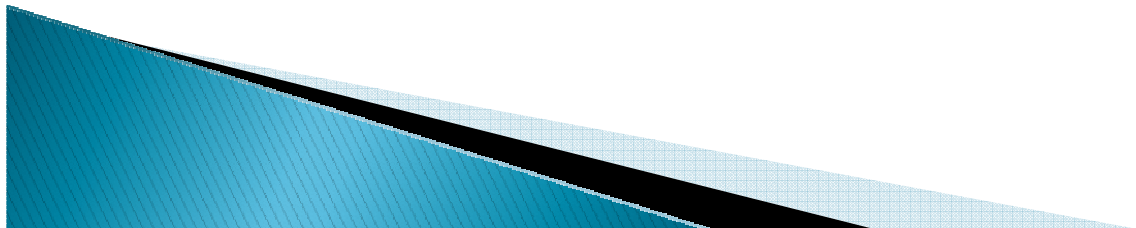
# What to consider for the bank and/or your funder conversation

- ▶ Make a list of all your assumptions – what have you based the figures on.
- ▶ If you are good with spreadsheets build in flexibility – drive the spreadsheet from the assumption page – banks use sensitivity. Have differing models.
- ▶ Build your cash flow from the marketing activity – marketing = sales = costs = cash needed.



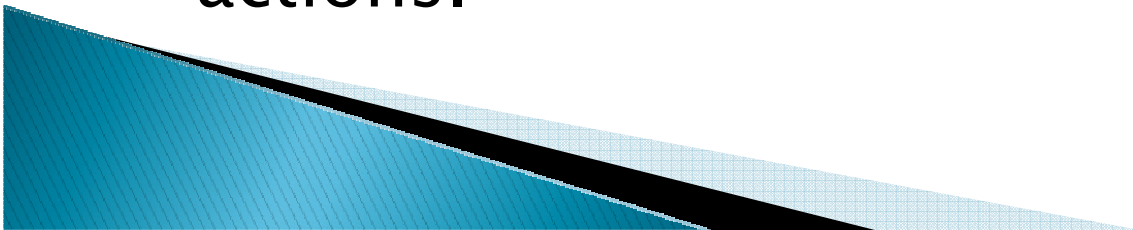
# What to consider for the bank and/or your funder conversation

- ▶ Understand when you need to buy stock – lead-times and usage rates – what will be the minimum stock levels you need to trade. Are you holding stock not needed ?
- ▶ Make sure you have realistic expectations of people paying you
- ▶ Present the summary information – Profit & Loss and cash flow in quarters, Balance sheet annually.



# Summary.....action plan

- ▶ Understand your cash flow inside out
- ▶ Try and build it up from your marketing plan
- ▶ Use a professional – business consultant, accountant – use business link website.
- ▶ Use proprietary software package or proven spreadsheets – if you are able to.
- ▶ Take into account tax – Use HMRC website
- ▶ Understand what the balance sheet means
- ▶ Make sure you can answer all questions about it – make sure it is realistic – face into actions.





# Thank you for listening – Q&A ?

- ▶ Lindsay Angus
- ▶ Director : Angus Jones Limited
  - ▶ [www.angusjones.co.uk](http://www.angusjones.co.uk)
  - ▶ Mobile : 07711 937777
- ▶ “ All matters financial because we know financial matters ”

