
Cash flow

Sam Stephens

TBAT Innovation Limited

Is your Business Fit for Finance?

Cash flow

- Day to day cash flow
- The 1% rule
- Practical tips to improve cash flow
- Cash flow to present to your bank

Is your Business Fit for Finance?

Cash flow

If you do not forecast and plan, your chances of failure are virtually guaranteed

Cash flow

Why produce a forecast

- To quantify how much cash you need
- To be on the front foot in discussions with your bank
- To see if you are going to break banking covenants
- To help fulfil your obligations as a director
- To force you to review every aspect of your business

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P&L and cash flow

P&L

Monthly sales

Raw materials

Labour

Overheads

Bad debts

Contingency

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P & L Forecast

	Jan	Feb	Mar
Sales	10,000	7,000	11,000
Raw materials	5,000	3,500	5,500
Gross profit	5,000	3,500	5,500
Wages	2,000	1,400	2,200
Rent	500	500	500
Telephone etc	250	250	250
-			
-	Total profit in 3 months = £6150		
-			
Profit	2,250	1,350	2,550

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Cashflow Forecast

	Jan
Sales receipts	
Raw materials	
Wages	(2000)
Rent	
Telephone etc	
Loan repay	(200)

Movement	<hr/> (2200)
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Bank Bal b/f	10000
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Bank Bal c/f	7800
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Your still £7325 down after 4 months!!

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Cashflow Forecast – a simple model

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	£ 500.00	£ 16,025.00	Insurance	SEEDA
6	£ 300.00	£ 800.00	£ 15,525.00	MSS	Yellow Prism
7	£ 600.00	£ 2,200.00	£ 13,925.00	Wages	Focus
8	£ 390.00	£ 1,569.00	£ 12,746.00	Consultancy	Modeo Ltd
9	£ 3,800.00	£ 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		£ 43.00	£ 15,966.99	Stationery	
15			£ 15,966.99		
16		£ 2,710.00	£ 13,256.99	BMF membership	
17			£ 13,256.99		
18			£ 13,256.99		
19	£ 500.00		£ 13,756.99		Man Eng

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Cashflow Forecast – a simple model

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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 month end

Run at least three months

Discuss content with key players in the company

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Cash flow

When does the cash come in

- Make sure you invoice for everything asap
- Is 30 days payment really 60 days
- In the cash flow, put in real cash in days based on each customer
- How many debtor days do you really operate on?

$$\text{Debtor days} = \frac{\text{debtors} \times 365}{\text{annual sales}}$$

- Always send a statement to each customer at month end
- Talk to customers to make sure you know when they are paying
- Get tricky customers to commit to pay and confirm in writing

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The 1% Rule

A company has the following figures:

Turnover £1,000,000

Direct costs £450,000

Gross profit £550,000

Administration costs £500,000

Net Profit £ 50,000

Increase sales by 1%

Decrease Direct costs
by 1%

Decrease overheads
by 1%

What happens if, each quarter we:

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The 1% Rule

				% 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

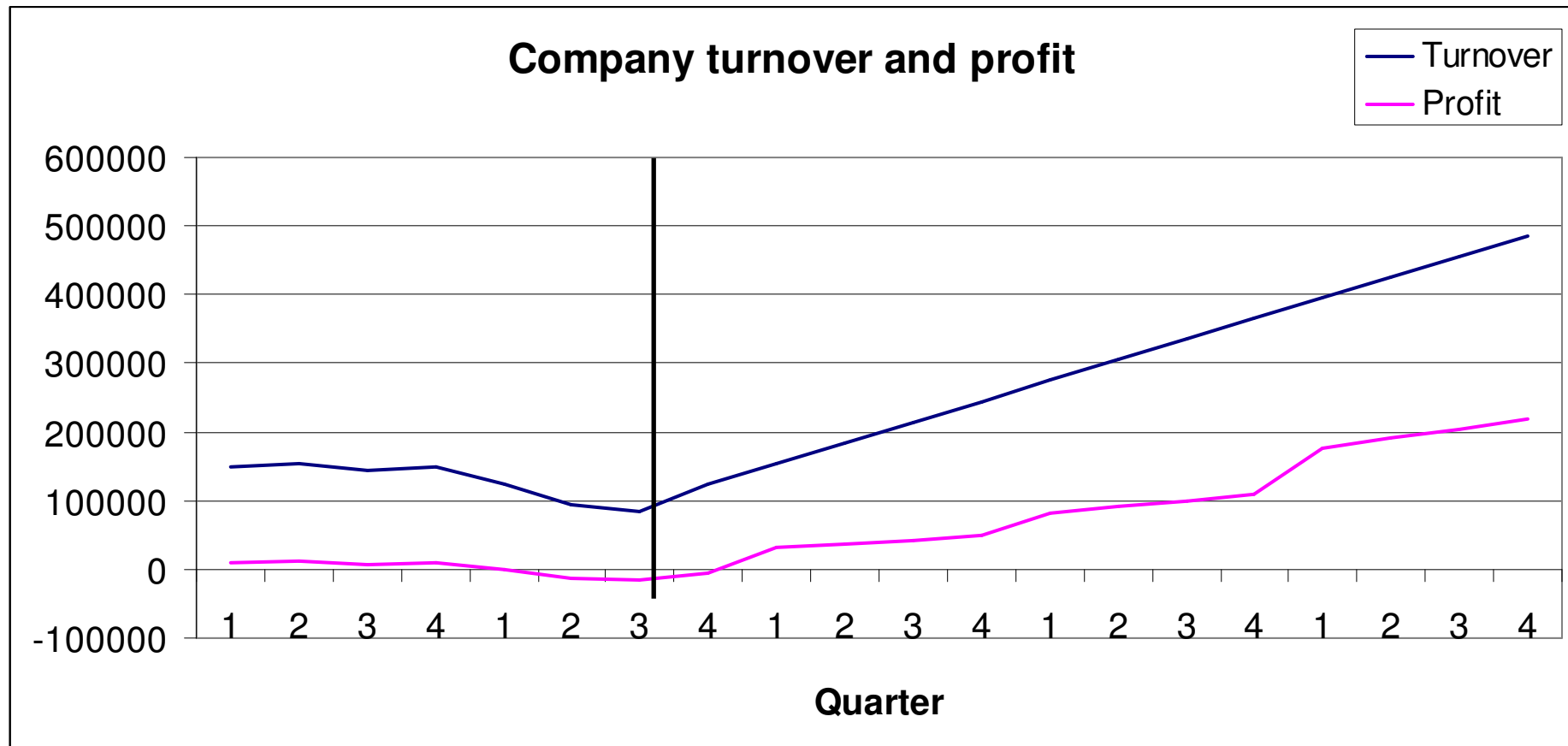
The profit has increased from £50,000 to over £147,000 in 15 months!!!

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Controlling costs

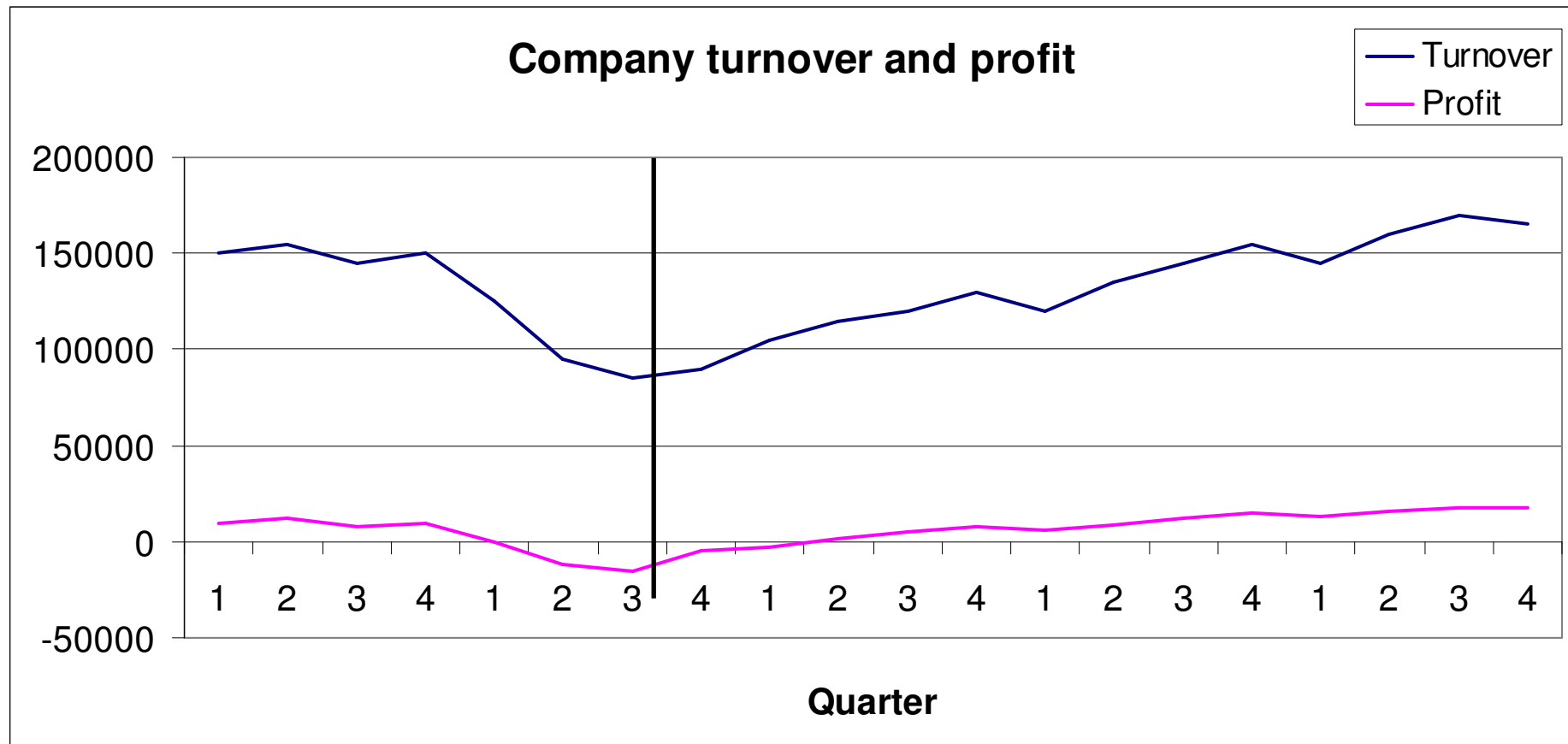
- Shop for better deals on raw materials
- Negotiate later payment on raw materials and other goods
- Remember the 1% rule
- Don't waste money – be hard and control the cheque book
- If you need staff reductions, do it once, do it well, do enough
- Lead from the front – don't take expenses, freeze pension payments, defer dividend
- Defer capital expenditure
- Put bad payers on STOP – you are not a charity!!

A three year cash flow forecast



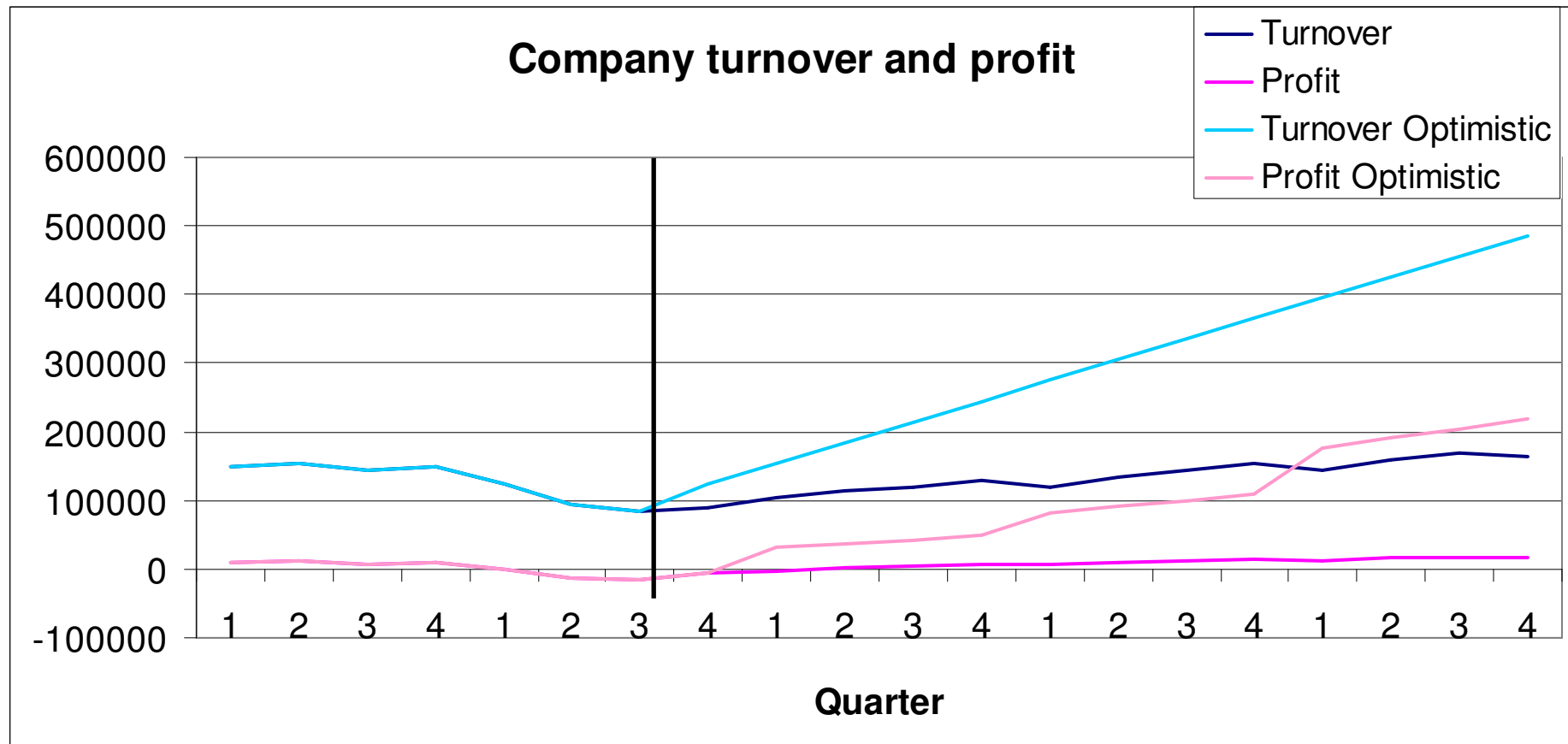
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A three year cash flow forecast



Is your Business Fit for Finance?

A three year cash flow forecast



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Building a cash flow forecast

Quick and simple

- Set up the profit and loss

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

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Building a cash flow forecast

Quick and simple

- Work out the vat and build the cash flow

Sales – when will the cash come in

Costs – what do we pay when

Rent – quarterly in advance

Labour – in the month it happens

Utilities – 5% vat

Vat – cash account or quarterly

When do you pay your suppliers

Do you have any loans to pay, capital purchases

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Building a cash flow forecast

Quick and simple

- 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

Marketing

Capital purchases

Sales

Raw materials

Direct labour

Stock

Overhead staff

Overhead costs

Product development

Profit & Loss

vat

Cash flow

Balance sheet

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What to consider

Make a list of all your assumptions

If your good with spreadsheets build in flexibility – drive the spreadsheet from the assumption page

Build your cash flow from the marketing activity

Understand when you need to buy stock – leadtimes and usage rates – minimum stock levels

Make sure you have realistic expectations of people paying you

Model +50% sales and minus 25% as a minimum

Present summary information – P&L and cash flow in quarters,
Balance sheet annually

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To conclude

- Understand your cash flow inside out
- Try and build it up from marketing
- Use a professional – business consultant, accountant – funds could be available
- Use proprietary software package or proven spreadsheets
- Take into account tax
- Understand what the balance sheet means
- Make sure you can answer all questions about it
- Make sure it is realistic

Is your Business Fit for Finance?

Contact us

The Business **Advice** Team Ltd

Lockington Hall, Lockington

Derbyshire, DE74 2RH

T: 0870 220 2403

F: 0871 433 5363

E: info@bteam.co.uk

W: www.bteam.co.uk

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