

Does Your Cash Flow Have A Cash Flaw?

Now that summer is about over, your cash flow could be good or it could be bad. All during the year our cash flow moves up and down depending upon the temperature, number of calls, jobs in progress, billing cycles, etc. The management of the cash flow cycle is the most important component of running a business. Without available cash to get and maintain jobs, your business will suffer immensely. Sales alone does not make you successful; it's the getting, spending and retaining of cash that makes you successful. The cash flow cycle is fairly simple. We take cash and use it to buy materials, assets such as trucks and tools, labor, subs, etc. We then use these resources we have purchased to generate sales in the marketplace. Once these sales have been generated, we collect from the customer (at some point in time), then use this cash to purchase resources and start the cycle all over again. If we are shrewd business managers, we collect more money than our costs per job. Good cash flow is when you have money coming in faster than money required to go out. Most HVAC dealers seem to have trouble managing cash not during the slow months, but surprisingly during the busy months. During this busy period, the dealer is buying lots of products, paying for lots of labor, selling goods and services; however, the monies actually received for the goods and services is rarely all C.O.D., but more than likely comes 30 to 60 days after the sale. That difference in selling and collecting is the real problem in cash management. Businesses who collect all C.O.D. rarely have any cash flow problems, but this policy is not practical for the typical mix of business in new construction, retail and commercial. Some of our monies must come through billings, and we have to learn how to manage this discrepancy. To avoid this problem commonly called the "Cash Trap", we as dealers must look ahead to anticipate cash receipts and cash disbursements. I've

enclosed a sample cash budget/ worksheet to guide you in our discussion. Ideally we want to look ahead six months. Six months gives us the opportunity to measure cash flow during months of busy time and months of slow time. We must be able to survive during both time periods. Let's examine each line:

Line 1 are the monies anticipated from cash sales.

Line 2 are the monies anticipated from billed sales. Let's say you anticipated billings in January to be \$25,000. You would not have a cash receipt of \$25,000 in January, only billings. The monies, if your terms are net 30 days, would come during the month of February. So, you would put on your worksheet \$0 for January, but \$25,000 for February.

Line 3 is other income from rental property, refunds, and warranty compensation.

Line 4 is the total cash monies you expect to have to spend each of the six months listed.

Line 5 is purchasing merchandise for resale. Are you going to buy \$10,000 worth of materials, equipment and parts and pay for those items the month of January or February? When are you actually going to write the check?

Line 6 outlines your operating/ overhead expenses (detailed at the bottom of the worksheet). The question is when do you pay for January's expenses — in January or February?

Line 7 is notes payable which include truck/auto loans, business loans, fixed asset loans, etc. to a bank, credit union, or creditor. How much do you pay for these loans each month?

Line 8 are dividends that you might pay to stockholders sometime during

the year.

Line 9 are extraordinary expenses above and beyond the normal operations of the business. Do you anticipate buying a copier in April for \$2000?

Line 10 totals all the cash disbursements.

Line 11 estimates the cash balance at the bank each month. These estimates include any prior balance of monies in the checkbook. Actual amounts are entered after the month ends and you have closed the books.

Line 12 is the totals from Line 4 as the estimate, with the actuals entered later.

Line 13 is the total monies estimated/ actual available each month by adding together Lines 11 and 12.

Line 14 is the disbursements total from Line 10 as the estimate, with actuals entered later after the monthly books are closed.

Line 15 reveals your positive or negative cash flow position at the end of the month. If you are in a negative position at the end of January, you may have to secure a loan or tap into a line of credit to give you a positive in the checkbook.

Many dealers do not understand the relationships among profit, cash flow, and sales. Dealers who develop positive cash flow management will be profitable, regardless of sales volume. You need to examine it carefully and make it an integral part of your game plan for today and the future.

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