

# McLean, Koehler, Sparks & Hammond

Certified Public Accountants/Business Consultants

## Industrial Manufacturing

### Cash flow forecast can help you weather rainy days



"If my business is so profitable, why is there no money in my bank account?"

Most business owners learn very quickly that there is a big difference between profit and cash flow. This lesson is so important that a failure to grasp its business significance may lead to a failure of the business itself.

First, it is important to be clear about what the term "cash" means. Cash is money in your bank account.

Cash is not accounts receivable or other IOUs. It is not inventory, stock-in-trade or machinery and equipment. And it is not goodwill.

Here are six planning steps that your business should implement to prevent the success of your business from draining all of its cash.

**Stay the delay.** Regardless of the type of business you operate, you must first pay cash out and then wait for the cash to come in.

Your employees and suppliers want to get paid for the services and goods they provide to your business. You incur marketing costs to drum up customers. Then, after you make a sale, you still find yourself waiting 30 days or more to get paid.

Manufacturers typically have a longer lag between the time cash goes out the door and the time new cash comes in than, say, service businesses. But many service businesses can experience a significant cash cycle. Some steps you can take to shorten this cycle include taking advantage of payment terms offered by your suppliers and either requiring prepayments from your customers or offering them discounts for early payments. Closing the gap between days in accounts receivable and days in accounts payable has a positive impact on cash flow.

**Identify periods when your business may be flush with cash. Then be sure to put some away for those 'rainy days' when cash will be tight.**

**Start a chart.** Put together an annual forecast of your cash inflows and outflows. Your accountant can be a big help here. The forecast should be broken down at least monthly so that you can identify times during the year when cash will be in short supply.

**Minimize the supplies.** Inventory and other supplies are money in disguise, sitting on a shelf.

Some business owners go overboard by taking advantage of discounts offered for volume purchases. To optimize your cash flow, you should strive to have your goods and supplies arrive just in time for shipment to your customers or consumption in your business activities.

**Quell the swell.** Every business owner wants to grow the business. But growth drains cash. Larger facilities require higher rents. More employees drive up payroll costs.

Managing a growing business presents a classic chicken-and-egg problem. Which comes first: new customers or more

employees, equipment and facilities?

Generally, you will have to pay for the growth well before you reap the benefits of increased cash inflow.

**Stash some cash.** Review your cash forecast to identify periods when your business may be flush with cash. Then be sure to put some away for those rainy days when cash will be tight. The best way to have cash when you need it is to save some when you have it.

**Borrow for tomorrow.** Secure a line of credit with a lending institution to help you through the lean months in your cash cycle.

A line of credit is more like a credit card than a loan. You will pay a small fee for having the line of credit available, but you will pay interest only when you actually borrow money.

Many lenders require you to pay off or pay down the line of credit periodically. Your company will have to be reasonably healthy to qualify for a line of credit.

Contact our firm for help in developing a cash forecast for your business.

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