

## WHAT IS CASH FLOW?

Cash flow is the flow of money that comes in and goes out of a business. At the start of a business journey, most of the cash flow comes in from the business owner as capital invested into the business. Forms of cash flow include start-up loans, government aid, funding from family or income from employment worked alongside building the business. Cash flow determines the liquidity of a business; liquidity is the ability for the business to cover its short term and immediate liabilities (debts). Sometimes it feels like cash flow is one way; a stream of income being poured into the business, but it does work both ways. Cash will come in from your customers (or from government aid as we are seeing during the Covid-19 crisis) and will flow back out to your suppliers and landlords, for example. The ultimate goal is to have a positive cash flow after you have paid yourself and the business bills. Or, in the current climate, the ultimate goal is business survival – where all business liabilities and bills are covered until business can resume as normal. Cash flow is not only a business concept but recently many business owners will be thinking about not only the cash to keep the business afloat, but the income generated from the business that contributes to the household living costs. During an economic crisis there are generally two perceptions of managing cash flow. One viewpoint is very common being that if no cash is being earned there is no point in reviewing cash flow. The other and most optimistic viewpoint is to realise that although income is low or non-existent that cash flow is more important than ever to both survive and succeed.

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ULTIMATE GOAL IS BUSINESS SURVIVAL  
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## WHAT SHOULD I BE DOING?

Now is a great time to review your cash flow and empower yourself with answers to the following questions that we are all asking now, or will be asking in the future

- When is the business cash balance going to drop below zero (or any other level that you set)?
- What can I do to avoid cash flow dropping too low? • How, and most importantly, when will I recover once cash flow hits a low?
- When will there be enough cash to comfortably hire staff or invest in products or equipment?
- What needs to be done now and in the future to invest in the business?
- When can I increase take home pay and how can I do this?
- How do I plan for different scenarios, such as Covid-19 and returning back to work?
- What prices should I set my treatments at and how many treatments do I need to sell to hit target?

This list is not exhaustive but gives an idea of some of the common and important questions that business owners should be asking themselves on a regular basis. The magic of cash flow forecasting is that, with the right tools and dedication, each of the above questions can be answered with careful planning and at the click of a button whenever you need them.



## HOW CAN I FORECAST CASH FLOW?

Covid-19 has highlighted the importance of careful cash flow and the importance of creating a safety net. This is not a new concept but one that every successful business owner will practice every day or at least once a month as opposed to reviewing cash flow and business performance at the end of a tax year.

**T**he problem with looking back on historical data is that although it will help to see where things performed well or not so well, it doesn't give you the opportunity to control and implement good cash flow management to achieve and improve the results that you want and most importantly put plans in place to achieve them

Creating a cash flow forecast is very simple and templates can even be downloaded via a Microsoft package. One other great tool that is available to help understand cash flow is the Float app and this is something that I use personally and with clients.

Cash flow forecasts are also very helpful when applying for funding and managing repayments.

Hindsight is a wonderful thing but there is no time like the present to regain control. Even if the decision is that the business may no longer be viable, that decision needs to be addressed as soon as possible. Although with careful cash flow management, there may still be a chance to keep things going and even improve future business performance. We can all use the latest economic challenges that we have all faced to think about how to implement cash flow planning into your admin tasks to firstly survive and secondly help plan for success while building a safety net. It is not only global pandemics that can cause disruption. Life itself is unpredictable and anything ranging from ill health and injury to a house move can have a huge impact on cash flow.