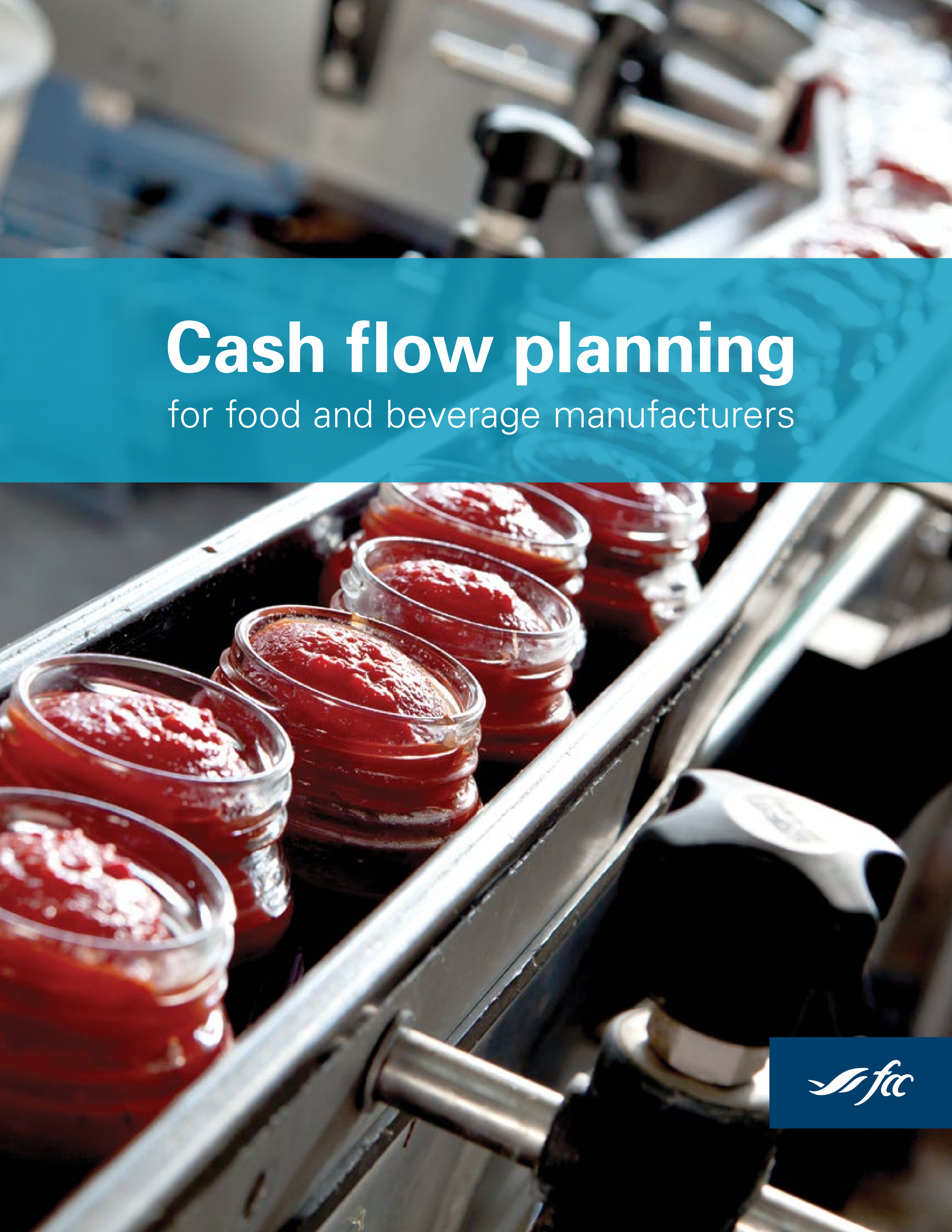
Cash flow planning

for food and beverage manufacturers



Quick tip

How profitable is your business compared to others in Canada? Find out with **BDC's Benchmarking Tool**.

Better planning **starts today**

Developing a cash flow plan has many benefits. It provides valuable insight, measures your progress and gives you a clear financial picture. In this guide, we'll show you how cash flow can:

- Give you the insight to identify when you need to spend time generating more sales, or when you need to cut overhead to make informed purchases.
- Help you focus on investing in new products, recruiting new staff or business expansion and track how well you're progressing toward future goals.
- Maximize your relationship with your lender by having a blueprint to identify a loan repayment plan that works for both of you.

What is **cash flow?**

Cash flow is an estimate of all cash receipts and expenses expected to occur during a certain time period. Estimates can be made monthly, bi-monthly, or quarterly, and should include sales and income as well as expenses such as wages, rent, raw material costs assets and other expenses.

Cash flow looks only at money movement, not at net income or profitability. A healthy and positive cash flow is a good sign that you're profitable. Remember, if the business can manage cash flow without having to increase operating debts or credit cards, then it's likely positioned to be profitable.

	January 2021	February 2021	March 2021	April 2021	Total YTD
Beginning cash	$ 500,000.00	$ 519,510.00	$ 534,810.00	$ 458,465.00	$ 500,000.00
CASH INFLOW					
Sales revenue	$ 885,000.00	$ 855,000.00	$ 820,000.00	$ 845,000.00	$ 3,405,000.00
Supplier rebates				60,000.00	$ 60,000.00
Account receivable	$ 100,000.00	$ 95,000.00	$ 95,000.00	$ 100,000.00	$ 390,000.00
Gain of disposal assets	–	–	–		–
Grants	$ 12,000.00	$ 12,000.00	$ 12,000.00	$ 12,000.00	$ 48,000.00
Investment from shareholders					–
TOTAL CASH INFLOW	**$ 997,000.00**	**$ 962,000.00**	**$ 927,000.00**	**$ 1,017,000.00**	**$ 3,903,000.00**
CASH OUTFLOW					
Cost of Revenues					
Purchases (i.e., raw material payments)	$ 827,000.00	$ 790,000.00	$ 850,000.00	$ 850,000.00	$ 3,317,000.00
Freight in and duty	$ 70.00	$ 75.00	$ 75.00	$ 75.00	$ 295.00
Trades and sub-contracts	$ 25,000.00	$ 26,000.00	$ 26,000.00	$ 26,000.00	$ 103,000.00
Wages and casual labour	$ 15,000.00	$ 15,000.00	$ 16,000.00	$ 16,000.00	$ 62,000.00
Truck and delivery	$ 3,500.00	$ 3,300.00	$ 3,500.00	$ 3,500.00	$ 13,800.00
Repairs and maintenance	$ 3,500.00	$ 3,700.00	$ 3,700.00	$ 3,500.00	$ 14,400.00
Inventory variance	$ 2,100.00	$ 2,000.00	$ 3,000.00	$ 2,100.00	$ 9,200.00
Operating Expenses					
Computer expenses	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 200.00
Consulting fees	$ 1,200.00	$ 1,200.00	$ 1,200.00	$ 1,000.00	$ 4,600.00
Equipment rentals	$ 250.00	$ 240.00	$ 250.00	$ 250.00	$ 990.00
Interest and bank charges	$ 480.00	$ 470.00	$ 470.00	$ 440.00	$ 1,860.00
Interest on long term debt	$ 22,000.00	$ 22,000.00	$ 22,000.00	$ 22,000.00	$ 88,000.00
Office	$ 2,000.00	$ 1,800.00	$ 1,500.00	$ 1,200.00	$ 6,500.00
Professional fees	$ 4,000.00	$ 3,500.00	$ 3,500.00	$ 3,000.00	$ 14,000.00
Property taxes	$ 300.00	$ 300.00	$ 300.00	$ 300.00	$ 1,200.00
Repairs and maintenance	$ 3,500.00	$ 3,400.00	$ 3,400.00	$ 3,500.00	$ 13,800.00
Utilities	$ 3,500.00	$ 3,600.00	$ 3,300.00	$ 3,500.00	$ 13,900.00
Employee benefits	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 6,000.00
Insurance	$ 1,300.00	$ 1,300.00	$ 1,300.00	$ 1,300.00	$ 5,200.00
Management Salaries	$ 23,000.00	$ 23,000.00	$ 23,000.00	$ 23,000.00	$ 92,000.00
Research & development	$ 5,000.00	$ 6,000.00	$ 6,000.00	$ 6,500.00	$ 23,500.00
Marketing & trade spend	$ 10,000.00	$ 15,000.00	$ 10,000.00	$ 15,000.00	$ 50,000.00
Amortization	$ 11,000.00	$ 11,000.00	$ 11,000.00	$ 11,000.00	$ 44,000.00
Income Tax	$ 4,600.00	$ 4,600.00	$ 4,600.00	$ 4,600.00	$ 18,400.00
Financing Activities					
FCC loan payment	$ 7,640.00	$ 7,665.00	$ 7,700.00	$ 7,700.00	$ 30,705.00
Other loan payment					
TOTAL CASH OUTFLOW	**$ 977,490.00**	**$ 946,700.00**	**$ 1,003,345.00**	**$ 1,007,015.00**	**$ 3,934,550.00**
CHANGE IN CASH FROM BUSINESS ACTIVITIES	$ 19,510.00	$ 15,300.00	$ -76,345.00	$ 9,985.00	-31,550.00
ENDING CASH BALANCE	**$ 519,510.00**	**$ 534,810.00**	**$ 458,465.00**	**$ 468,450.00**	**$ -468,450.00**

How to **simply forecast**

1. Determine how far out you want to plan

Plan as far ahead as you can accurately predict. If you're established and have historical data and predictable sales, you might plan further out. If you're a new business with not much data, the further out you plan, the less accurate your projections will be. Lenders may require 12- to 24-months of projected cashflow.

2. List all income

Set up a column for each time period (i.e. month), list all the cash coming by different sources in rows. The key is to be accurate with timing. The cash flow budget will showcase key effects of timing differences in actual receipts and disbursements of cash.

Start with sales. Be sure to build in payment terms. In some instances, sales in one month does not necessarily mean that you'll receive cash in that month. Take into consideration if you have products impacted by seasonality.

Consider including supplier rebates, deposits on contracts, tax refunds, grants, investments from shareholders, new loans, etc.

Add up the total for each column to get your total cash inflow for that time period.

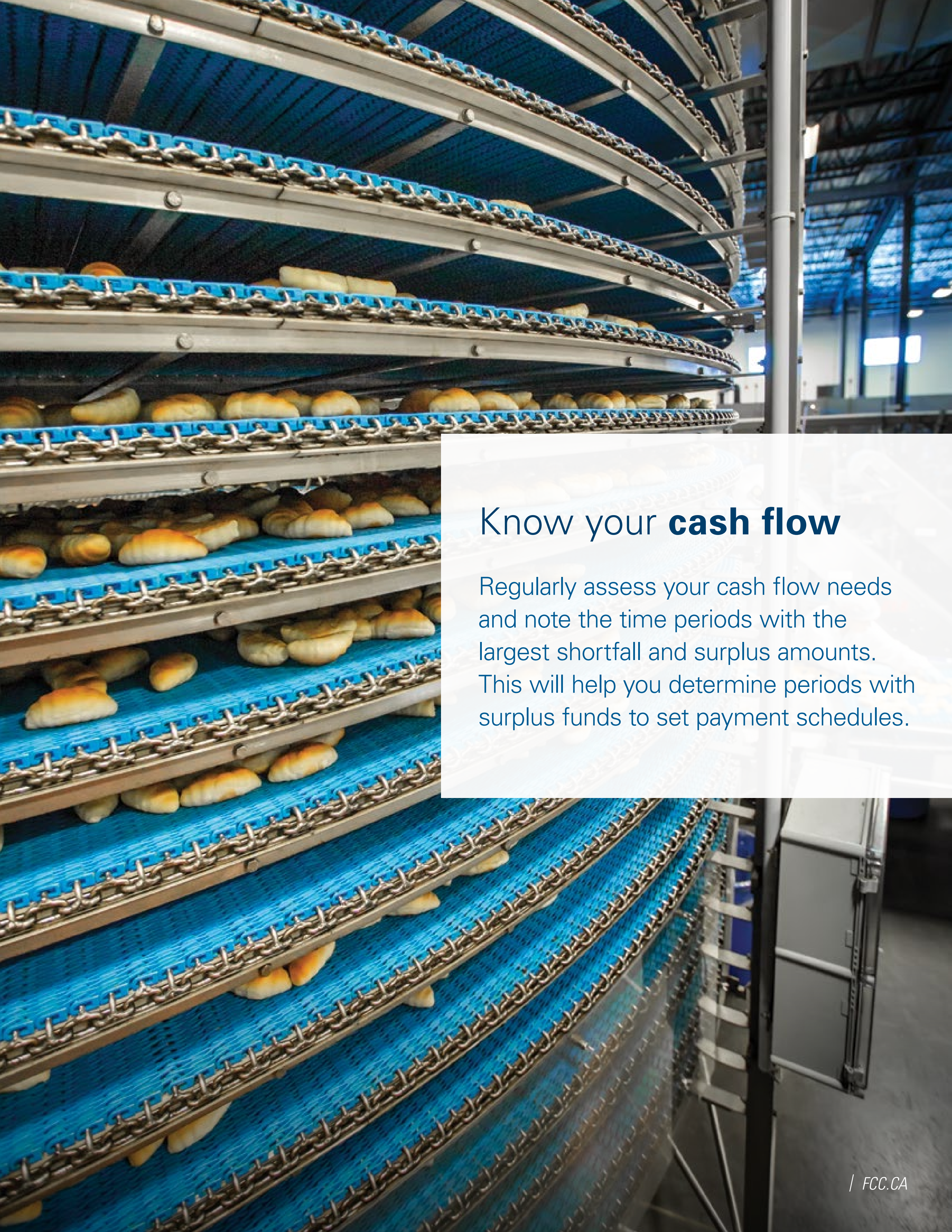
3. List all expenses

For each column (i.e. month), list all the cash going out by row. Include cash outlays (i.e. raw material payments, direct labour), overhead expenses (i.e. rent, phone bills, salaries, employee deductions, heat, power), and intermittent expenses (i.e. loan payments, equipment purchases, income and other taxes, insurance premiums, training expenses, other capital expenditures, dividends or bonuses).

Total the expenses to get your total cash outflow.

4. Determine your running cash flow

Subtract the expenses (cash out) from your income (cash in) totals, and you'll see a cash surplus or deficit for the time period.



Know your **cash flow**

Regularly assess your cash flow needs and note the time periods with the largest shortfall and surplus amounts. This will help you determine periods with surplus funds to set payment schedules.

Quick tip

You might have cash left over after one month, yet you may need that cash to cover future projected shortfalls. Always review annual performance before spending to ensure it's not required for future use.

Whether you're cash positive or cash negative – here are a few guidelines to follow:

WHEN YOU HAVE CASH

- **Hold onto your cash. You may need it for business expenses in the coming months. A surplus now doesn't mean you should use it.**
- **Evaluate income statements and verify that your cash availability also means you're generating a profit.**
- **Buy raw materials in advance and consider inventory requirements over the next while, and if you should buy in bulk or lock in prices.**
- **Assess future expansion or purchase plans by scenario planning. Is now the time to take on that renovation or purchase new equipment?**
- **Pay off more on your loans.**

WHEN YOU'RE SHORT ON CASH

- **See where you can cut costs, dividends, future projects, review owner salary or find efficiencies. Dig into the fixed and variable costs within your business.**
- **Speed up the collection of cash receivables by potentially offering cash discounts. Consider slowing down payables by negotiating terms.**
- **Find ways to make extra sales. Is there equipment you don't use you can sell? Can you rent out storage space or take on co-packing opportunities?**
- **If your business can't handle an interest spike, lock in your rates.**

Quick tip

Consider what's driving the shortfall in cash. Assess whether an operating line is an appropriate solution.

Quick tip

Build three different cash flow plans: best case, worse case and most likely case. This will help you figure out what's right for the business, prepare for the future and help facilitate the lending process.

What is **scenario planning?**

Scenario planning helps you prepare for those "what if" situations. How do you plan for unforeseen circumstances? Is now the time to buy a new piece of equipment for your facility? What other revenue streams are accessible to you? Is there appetite for investing in new product development?

Run scenario plans with your monthly, quarterly or yearly finances. These plans can identify periods where cash will be tight and when cash will be available. Knowing this can help you with major decisions, long-term and crisis planning.

Document the assumptions used to prepare the cash flow budget for each scenario. This will help when you go back to review. It's also a benefit to your lender. It helps them understand your business sooner.

If you're using this tool to forecast, revisit and revise your cash flow plan with actuals at a later date to compare the accuracy of your scenario planning.

Cash flow and loans
Tips from your lender

Depending on your situation, a loan could be a good option to help manage your cash flow. Here are a few ways to use cash flow planning to manage loans:

- Short-term loans (raw materials, smaller equipment): Use cash flow planning to determine your ideal terms and repayment schedule.
- Long-term loans (buildings, major construction): Estimate both fixed and variable rates in your cash flow forecast. If interest rates rise, will you still be able to make your loan payments?
- Multiple loans: Mix it up with short, medium and long-term options. This will provide a cushion if interest rates rise and let you take advantage when interest rates are low.

Golden rules to keep in mind:

- Monitor operating lines. Make sure money spent on expenses is paid back within the year.
- Don't put capital purchases on your operating loan. This could tie up funds when you need money for input purchases.
- A great conversation to have with your lender is whether you should finance assets for as long as you can depreciate them. If an asset (like equipment) will depreciate over 10 years, does it work for your business to finance it over 10 years?
- With cash on hand, consider whether it is beneficial to increase debt repayment or keep the cash for an upcoming project/down payment.

The most important thing you can do? Talk with your lender – they're here to help!

Let's work together | Contact an FCC team near you

Call: 1-800-387-3232 I fcc.ca/Contact

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