PART 3

CREATING AN INDISPENSABLE CASH FLOW FORMAT
What is the secret to effective cash flow planning? Understanding the time lag between sales and cash. You may be fulfilling your sales plan, but are you still getting caught in a cash flow crunch?

The principal benefit of good cash flow planning is that it helps you run your business on your own money – and avoid using as much short-term borrowing, whose finance charges to eat into your profits.

Financial planning software, such as the Retail Strata:G® Financial Planner™, can take some of the confusion and tedium out of cash management, but using just a pencil, calculator and the enclosed Speedy Form for Cash Control can help you get started in sorting out how to manage your cash flow.

Simple, Yet Complete

The Speedy Form is reproduced nearby. You can do the calculations manually or set it up on a spreadsheet program on your computer. We’ve tried to make this form as simple as possible without leaving out any of the essential elements of cash management.

This form walks you step-by-step through calculations of your cash coming in each month, cash going out each month and the expected surplus or deficit between these figures. The form will help you anticipate and have a plan for how sales and expenses will affect your cash flow for the next six months.

Before filling in any amounts, read the following explanation of the plan where referring to the form. Then, make a couple of copies of the blank form in case the numbers don’t work out the first time. After doing this, go through the steps a second time, filling in the numbers and figuring the arithmetic as you go. Remember, estimates are fine. Round off your
numbers or you’ll get bogged down with too much detail.

**Part One: Cash Coming In**

Cash flow planning requires up-to-date sales plans. That is, what you expect sales to be each month for the next few months. Be sure yours is current before starting to work through the Speedy Form.

At the top of the form make a memo entry of each of the next six month’s expected sales. We will use Part One of the form to show how and when the cash from these sales actually comes in. To begin creating your cash flow plan, start by using column one to project this month’s cash flow, even if the month is nearly over. That will give you an accurate starting figure. To do this, follow the steps below.

**Step 1. Cash** (beginning balance)

On line 1, fill in the actual cash balance showing in your checkbook for the last day of last month. This will be the only actual figure in your plan. All others will be estimates based on your sales and cost projections. (Your cash beginning balance for the rest of the months in the plan will come from the previous column in line 15 of the Speedy Form.)

**Step 2. Cash Receipts from Sales**

Using your updated sales plan, estimate the total cash receipts you expect to take in during the month from your normal operations. This includes sales of merchandise and receipts from services you may offer as a regular part of your business.

Since this is a cash flow plan, don’t figure in any credit sales that you will carry past the end of the month. You’ll pick those up later when your customers pay their bills. Do, however, add in bank credit card sales since they convert to cash when you deposit them.

If your sales plan doesn’t break out credit sales from cash sales, go back several months and figure out the percentage of your total sales typically on credit. Subtract the amount equal to that percentage from your total projected sales for the month. Enter that amount on line 2. If you don’t carry your own credit, simply enter your total projected sales from your sales plan.

**Step 3. Payments on Account**

This line will hold the amount of cash you expect to take in from last month’s credit sales. Use the same percentage you used in number 2. (To calculate this amount, multiply your projected sales for the previous month by your percentage of credit sales.) Subtract
from that amount the percentage of credit sales that typically go beyond 30 days. Enter the remainder on line 3. If you don’t carry any direct charge accounts, enter 0 on this line.

**Step 4. Loans Received**
This will generally only include short-term loans. (Most long-term loans are for capital expenditures.)

**Step 5. Other Sources of Cash**
Think of all the ways you take in cash that don’t show up in your sales figures. These include finance charges you add to past-due accounts, interest income, vendor rebates, inventory restocking charges, and similar transactions.

If you look at past records, you will find these other cash sources are a fairly steady percentage of your total monthly sales. Multiply your projected sales from line 2 by that percentage to get an estimate of cash from other sources.

**Step 6. Total Cash Available**
Add your figures from lines 1–5 on the Speedy Form. This shows your total cash available for the month.

**Part Two: Cash Going Out**
Estimating your cash outflow accurately is even more crucial than estimating cash inflow. Business people, optimists that we are, tend to overestimate inflow and underestimate outflow. But cash flow planning is no place for the power of positive thinking. When estimating expenses, you’re better off being a little pessimistic.

**Step 7. Accounts Payable**
(Inventory)
If you are using an Open-to-Buy plan, transfer last month’s Open-to-Buy figures to this month’s line 7. Use the same procedure to project accounts payable for future months of your plan.

If you haven’t yet set up an open-to-buy plan, dig out your purchase orders and figure out when your shipments will be arriving. Your accounts payable projection for any month will equal the total inventory you expect to receive, at cost, the previous month.

**Step 8. Selling, Administrative and Occupancy Expenses**
Selling expenses include salaries for your sales people, wages (including overtime) for other employees, advertising, and promotion. Selling expenses rise and fall with sales volume (although they never seem to fall quite as much as they rise!), so you can peg that part of your costs to
your projected sales.

Administrative expenses generally run about the same each month. Include support staff wages in this category, as well as the cost of employee benefit programs.

Occupancy expenses mainly include rent or mortgage and utilities. These may fluctuate with sales, especially in shopping centers where percentage-of-gross rents are common.

On line 8, enter the total planned operating expenses for each month.

**Step 9. Equipment & Capital Expenses**

For this step, add up all your present monthly rental and lease payments on equipment, fixtures, leasehold improvements, vehicles, and the like. Then add any other monthly installments you will be taking on this month for new capital expenses. Do not include bank loan repayments here. We’ll get to those later.

**Step 10. Tax Payments**

Use your past income statements to project pretax profits and estimate income taxes for the month. Estimate sales, withholding, and FICA taxes according to your projected sales and payroll expenses.

On line 10, enter tax payments into your cash flow plan in the months in which you will be making the payments. A note of caution: Quarterly tax payments can sneak up on you, so estimate high rather than low.

**Step 11. Loan Repayments**

This includes all loan repayments either as short or long term. You should track interest payments separately on line 12.

**Step 12. Other Expenses**

Interest payments, maintenance costs, professional association dues, convention or buying trip expenses, pizza for the staff training meeting... and all the other little items (some not so little) fit under “other expenses.” Give yourself a couple of days to come up with all these and add a few extra dollars for the ones you’ve probably forgotten.

**Step 13. Total Cash Disbursements**

Once you are satisfied you have planned for every expense, total the figures in lines 7–12. Check your estimate against past records to make sure it’s reasonable.

**Part Three – The Difference**

You are now in the home stretch... the summary sheet section.

**Step 14. Surplus (or Deficit)**
Subtract line 13 from line 6, and you have your cash surplus (or deficit) for the month.

**Step 15. Cash (Ending Balance)**
Lastly, enter your ending balance and carry that balance to the top of the next column and continue on for the next month!

**What To Do**
Compare the amount on Line 14—surplus or deficit—to Line 15, which is your minimum required cash balance each month. (Line 15 might be $1,000, or $5,000, or even zero! Whatever amount you are comfortable with as the minimum amount of cash to have on hand.) If Line 14 is the same or greater than Line 15 as the beginning cash balance on Line 1 for the next month, and continue filling in your cash flow plan.

However, if Line 14 (which is total cash in minus total cash out for the month) is less than Line 15 (your desired minimum cash balance)—you know that you must make some adjustments, or plan to borrow from the bank. How much to borrow? Whatever it takes to restore your required minimum cash balance. Here’s how to calculate that:

Say you have set $5,000 as you minimum cash balance on Line 15. And, during the month, you expect to have total cash in (Line 6) of $12,000, and total cash out for the month (Line 13) of $15,000. To determine Line 14 (total cash in minus total cash out), you subtract $15,000 from $12,000, which is a <$3,000>. Therefore, to have your minimum cash balance of $5,000 on hand at month’s end, you must borrow $8,000 from the bank.

Enter that $8,000 on Line 4—Loans Received—and redo your calculations. See what happens? You end the month with your targeted $5,000!

Now, this is the key: continue to complete your cash flow plan month by month to determine when you can repay the $8,000 loan to the bank. How will you know? Each month that Line 14—the Cash Surplus (or Deficit)—is greater than Line 15—the required minimum cash balance—you could repay part (or all!) of the loan. This is what your banker will want to know: when will you be able to pay me back?

**Check and Adjust**
You now have a complete cash flow plan for six months. Your plan will show whether you are on sound cash
footing or headed for trouble in the not-too-distant future. You are now in a position to make changes to keep cash coming in ahead of cash going out. You also have the most important document you’ll need for discussions with your banker.

After you have successfully operated with a six-month cash flow plan for a few months, extend your plan to a year. Even though figures in the second half of the plan will be chancier than those in the first, you will find them very useful. For instance, you can show how you intend to repay long-term debt with an extended cash flow plan.

Even with a sound cash flow plan, you will find actual figures to be different from your projections. That means, you need to check your plan against actual experience each month and adjust your figures to reflect changes in cash inflow and cash outflow patterns. As each month becomes history, project one more month so you always have a cash flow plan covering the next six (or twelve) months.

Making a cash flow plan is one of the less exciting parts of being a shoe retailer. It takes time, effort, and discipline to create and follow your plan. But greater profits and peace of mind will prove your efforts were well worth it.
# Speedy Form for Cash Control

## Expected Sales

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## PART ONE

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<td>5. Other Sources of Cash</td>
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## PART TWO

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<td>10. Tax Payments</td>
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<td>11. Loan Repayments</td>
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<td>12. Other Expenses (i.e., Interest)</td>
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<td>13. TOTAL DISBURSEMENTS</td>
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## PART THREE

### The Difference

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<td>15. Cash (Ending Balance)</td>
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Today’s Date: _________________

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