



Best Practices: Cash Flow Forecasting

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Capital is the lifeblood of any manufacturing business. Each week, your payroll must be met, overhead covered and suppliers paid. Meanwhile, your customers might not pay on time — or in full — and unanticipated expenses may come up, straining your cash flow.

Applying the following three best practices can help you eliminate much of the heartburn associated with managing your manufacturing facility's day-to-day capital and help keep your cash flow positive.

No. 1: Identify your peak needs

Most manufacturing businesses are cyclical and their cash flow needs may vary by month or season. Trouble can arise when an annual budget doesn't reflect, for example, three months of peak production in the summer to fill holiday orders followed by a return to normal production Oct. 1.

For seasonally focused operations, using a one-size-fits-all approach can throw budgets off, sometimes dramatically. Instead, work closely with your financial advisor to identify peak production times, forecast your cash flow needs and plan accordingly.

No. 2: Account for everything

Effective cash flow management requires anticipating and capturing every expense and incoming payment, as well as — to the greatest extent possible — the exact timing of each payable and receivable.

Pinpointing exact costs and expenditures for every day of the week can be especially challenging. Unlike a retailer, for instance, who functions as a middleman for finished products between producers and the public, manufacturers can face an array of additional costs, overruns and payment delays.

When developing a cash flow forecast, manufacturers should put everything on the table, including all known and expected overhead, labor, raw material, energy, and legal and tax expenses. It can be a tedious and time-consuming exercise to inventory all possible expenses, but doing so can help avoid problems down the road.

In addition, small and midsize manufacturers can be overly dependent on large orders from a few big customers, who may demand generous payment terms and quick turnaround. These arrangements require careful planning to ensure, for example, that a lean period is covered when waiting weeks for payment on a \$500,000 order that cost you \$350,000 to fulfill.

No. 3: Seek additional funding

Managing your cash flow needs might involve a dedicated line of credit with a bank to fill in any periodic cash shortages. These loans typically are used to cover short-term operational costs such as payroll and supplies. They also may require significant financial and nonfinancial covenants, collateral and personal guarantees. We recommend working with your financial advisor to see if this option is right for your business.

Cash flow obstacles

While considering these best practices, it's important to keep in mind key cash flow obstacles. The biggest obstacle is slow invoicing that can result in delayed payments. Evaluate options to streamline your invoicing process, offer easy and convenient ways for clients to pay (such as online bill pay or use of Electronic Data Interchange) and do a thorough check of customers' financials and credit history to avoid drains on cash flow.

Another common obstacle is poor resource management. Redundant machinery, misguided investments and oversize facilities are just a few examples of poorly managed expenses and overhead that can negatively affect cash flow.

Finally, lawsuits can severely hurt cash flow. Granted, some unfavorable legal situations are unavoidable. But by following best practices in safety, insurance and general business operations — and keeping a watchful eye out for risks — you may be able to avoid costly litigation.

Adjust as you grow

Your plant's cash flow needs today likely aren't what they were three years ago, nor will they be the same three years from now. That's why it's important to make cash

flow forecasting an integral part of your overall business planning.

To learn more about “Best Practices: Cash Flow Forecasting,” contact your Boulay advisor at 952-893-9320 or learnmore@boulaygroup.com.

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