

What Every Restaurant Operator Should Know About Managing Cash Flow

For many restaurant owners one of the most perplexing and frustrating aspects of running their business is getting a handle on the ebbs and flows of their cash flow. All too often cash balances can be more than sufficient one week only to turn into a shortfall and potential overdraft situation the next.



Cash shortages can be a real distraction from productive activities. A cash deficit can be disruptive to operations if lack of payment threatens key deliveries and services. And never underestimate the damage to your reputation and credibility when your lenders and suppliers don't get paid in a timely and consistent manner.

While managing cash flow can be a constant challenge in unprofitable restaurants, it can also become an issue in profitable restaurants as well.

How do you go about keeping up with what your cash situation so you can smooth out those cash flow peaks and valleys? First let's look at the dynamics of cash and how cash flow differs from income and expenses on your P&L.

Cash Flow is Different Than Net Income

Let's start with the P&L which is very easy to understand. The dynamic of income is one of "magnitude." You want more income and less expenses to maximize the amount of Net Income you earn.

Income Dynamic An Issue of "MAGNITUDE"

Sales	\$ 100,000 ↑
Expenses	<u>95,000</u> ↓
Net Income	\$ <u>5,000</u>

Managing cash flow, however, is primarily a "timing" issue. It's about managing "when" the money comes in and when it's paid out. For example, in the image below you can see that based on a simple projection of cash coming in and going out it this business is looking at a cash shortfall of around

\$10,000 at the end of Month 2.

The quickest and usually easiest way to fix the problem is to start exploring ways that cash could be received quicker, in Month 2 rather than Month 3 or delay some payments scheduled for Month 2 until Month 3.

Cash Flow Dynamic

An Issue of "TIMING"

	Month 1	Month 2	Month 3
Beginning Cash	\$ 10,000	\$ 5,000	\$ (10,000)
Cash In	90,000	80,000	100,000
Cash Out	95,000	95,000	85,000
Ending Cash	\$ 5,000	\$ (10,000)	\$ 5,000

If part of the \$100,000 of cash receipts expected in Month 3 is due to catering or banquet sales, maybe deposits could be collected in advance of the events. If \$5,000 of receipts could be received in Month 2 instead of Month 3, then our shortfall is down to \$5,000.

Cash Flow Dynamic

An Issue of "TIMING"

	Month 1	Month 2	Month 3
Beginning Cash	\$ 10,000	\$ 5,000	\$ (5,000)
Cash In	90,000	85,000	95,000
Cash Out	95,000	95,000	85,000
Ending Cash	\$ 5,000	\$ (5,000)	\$ 5,000

Another possibility is to delay some payments scheduled for Month 2 to Month 3. While some types of payments like payroll and sales taxes need to be paid on or before their due dates, some liabilities, like vendor accounts payables may offer some flexibility.

If you approached a few of your vendors ahead of time (very important to give some advance notice) and explain you've got a short term cash crunch and need some more time to pay, many, if not most vendors are happy to cut you some slack with some extra time.

Cash Flow Dynamic

An Issue of "TIMING"

	Month 1	Month 2	Month 3
Beginning Cash	\$ 10,000	\$ 5,000	\$ (5,000)
Cash In	90,000	85,000	95,000
Cash Out	95,000	95,000 → 85,000	
Ending Cash	\$ 5,000	\$ (5,000)	\$ 5,000

If \$5,000 of payments due in Month 2 could be rescheduled to Month 3 the shortfall is gone. No more problem. While this is obviously a simplification the key to being able to fix the problem is knowing that you have a problem "ahead of time." Suppliers and other creditors are loathe to give you much wiggle-room or sympathy if you come to them when you're desperate and in trouble. The key is in giving yourself "time" to manage it properly ahead of the problem.

Cash Flow Dynamic

An Issue of "TIMING"

	Month 1	Month 2	Month 3
Beginning Cash	\$ 10,000	\$ 5,000	\$ - 0 -
Cash In	90,000	85,000	95,000
Cash Out	95,000	90,000 → 90,000	
Ending Cash	\$ 5,000	\$ - 0 -	\$ 5,000

One Key to Managing Your Cash

While working with many restaurants over the years, some with horrendous cash challenges, I've found the best thing any operator can do first is to set up a simple worksheet that estimates weekly cash receipts and cash payments.

Most restaurants' cash flow can fluctuate dramatically from week to week primarily because of the timing of payments like payroll, sales taxes, and rent.

The reason to take some time to set up a weekly cash projection is to see what's coming so you have some time to do something about anticipated shortages. The only thing worse than having a cash shortage is having a cash shortage that was a total surprise.

How to Prepare a Weekly Cash Projection

You start the process by estimating your cash receipts from all sources by week.

CASH INFLOWS (RECEIPTS)

- Cash & Credit Card Receipts -
 - Sales
 - Plus: Sales Tax
 - Less: Paid Outs
 - House Account Collections
 - Interest Income
 - Loan Proceeds
 - Other -

Then estimate your cash payments by week.

CASH OUTFLOWS (PAYMENTS)

- Vendors -
 - Food
 - Beer, Liquor & Wine
 - Other Supplies & Services
- Payroll -
 - Net Payroll
 - Payroll Taxes
- Sales Taxes
- Liquor Taxes
- Utilities
- Occupancy Costs -
 - Rent
 - Property Taxes
 - Insurance
 - Equipment Leases
- Note Payments (P&I)
- Other -

Use your actual cash on hand or a good estimate as a starting point . . . The thing to remember starting out is that this is a PROJECTION. It's never going to be 100% accurate, but you'll quickly find that doing this a whole lot better than doing nothing and essentially being in the dark.

Do this for several weeks or months out into the future and I think you'll quickly see what a helpful tool it will be and how much you'll learn about the cash ebbs and flows of your business.

RestaurantOwner.com members can [download](#) the following Cash Flow Projection template set up as an Excel spreadsheet and begin the process immediately.

(Name of restaurant)
Weekly Cash Flow Projection Worksheet
 For the 52 Weeks Starting on:

	Week 1 1 Jan	Week 2 8 Jan	Week 3 15 Jan	Week 4 22 Jan	Week 5 29 Jan	Week 6 5 Feb	Week 7 12 Feb	Week 8 19 Feb	Week 9 26 Feb	Week 10 5 Mar	Week 11 12 Mar	Week 12 19 Mar
Beginning Cash Balance	00	00	00	00	00	00	00	00	00	00	00	00
CASH INFLOWS (RECEIPTS)												
Daily Cash Receipts												
Sales												
Floor Sales Tax												
Liquor Receipts												
House Receipts (Caterers)												
Reservations												
Lost Proceeds												
Other												
TOTAL CASH INFLOWS	00	00	00	00	00	00	00	00	00	00	00	00
CASH OUTFLOWS (EXPENSES)												
Wages												
Food												
Beverage												
Other Supplies												
Fuel												
Rent												
Utilities												
Depreciation												
Insurance												
Advertising												
Other												
TOTAL CASH OUTFLOWS	00	00	00	00	00	00	00	00	00	00	00	00
ENDING CASH BALANCE	00	00	00	00	00	00	00	00	00	00	00	00