Effectively Managing Your Cash

Real-world tips for getting into the flow of things.

Cash flow is the lifeblood of a business. It pays the bills, employees, taxes, the bank, and occasionally, with a little luck, the owners. Whether cash flow is up or down, an owner needs to understand what changed, what caused the change, and what steps need to be taken to improve future cash flow.

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Cash flow also is critical to banking relationships and when it is time to sell. Bankers want to understand how easily a center can service its debt, and buyers base their purchase price more on cash flow than other indicators.

Some owners, such as Joe Schumacker of SpareZ in Davie, Fla., take a formal approach to managing cash flow.

"You live or die by cash flow," he points out. As a result, he performs a 30-day projection of cash flow each month.

By contrast, Jamie Brooks, who owns three centers in the Dallas market area, takes a more casual approach. He feels like if he "watches revenue and expenses, cash will take care of itself."

Whether you use a formal or informal approach to cash management, there will be an occasion when your cash position is higher or lower than expected, and it will be necessary to analyze your financial statements to understand the cause.

Two measures of cash flow can help to understand your center's operations:

1. Net operating cash flow (or net operating income) is the net income of the center before non-cash items such as depreciation, amortization and debt service. It also excludes unusual items such as major repairs to the building and/or equipment, capital investments, and non-operating items such as insurance recovery from a loss and the resulting repair costs.

In other words, it's the income the business generates under normal conditions without considering how it is financed and ignoring expenses which are not repeated every month or every year. This demonstrates how the business's day-to-day operations are working.

2. Net cash flow is the change in the cash position of the company after all items which produce or use cash are considered. This includes revenue and expenses, and also the impact of changes in balance-sheet items such as inventory, accounts payable, insurance recoveries, and borrowing and debt repayment. This tells how the business's total operations are functioning.

Analyzing net operating cash flow will start with the income statement. Monthly and year-to-date financial statements should be compared to the same period from the previous year or years. Using the same period will reduce the seasonal impact of leagues, whether or not school is in session, and weather.

The changes to each revenue and expense item should be analyzed to identify trends that were caused by successful, as well as unsuccessful, marketing or management decisions, as well as unexpected fluctuations in the local economy or weather. Some centers have their financial statements formatted to show non-operating expenses — such as de-

	2018	2017	Difference	
Revenue				
League	$25,000	$22,500	$2,500	11.1%
Open Play	$32,500	$30,000	$2,500	8.3%
Food	$18,500	$18,000	$500	2.8%
Bar	$22,500	$20,000	$2,500	12.5%
Other	$5,000	$5,000		0.0%
Total Revenue	$103,500	$95,500	$8,000	8.4%
Cost of Goods Sold				
Operating Expenses				
Payroll	$7,500	$6,00	$1,500	25.0%
Building Costs	$3,000	$3,000		0.0%
Repairs	$5,000	$5,000		0.0%
Utilities	$5,500	$5,500		0.0%
Other	$6,000	$2,500	$3,500	140.0%
Total Operating Expenses	$27,000	$22,000	$5,000	22.7%
Net Operating Cash Flow	$76,500	$73,500	$3,000	4.1%

Figure 1

	2018	2017	Difference	
Net Income	$45,750	$45,375	$375	0.8%
Change in Accounts Payable	$3,500	($1,000)	$4,500	-450.0%
Change in Inventory	$500	($500)	$1,000	-200.0%
Change in Fixed Assets	($75,000)		($75,000)	
Change in Long Term Debt	$25,000	($10,375)	$35,375	-341.0%
Total Changes in Cash	($250)	$33,500	($33,750)	-100.7%

Figure 2

preciation, amortization and interest — shown after the net operating income, plus show the differences between the two periods. This makes it relatively easy to highlight both positive and negative impacts on the center. Otherwise, a spreadsheet that shows each of the revenue and expense items may be necessary to get a complete picture.

In Fig. 1, revenue increased by $8,000, but net operating cash flow increased by only $3,000 because of increases in expenses, primarily in "Other." The follow-up to this analysis is to confirm what "Other" was, and whether it was a normal expense or a one-time item.

QuickBooks has a cash flow report that presents net cash flow. The impact on cash from repaying loan principal (which doesn't show on the income statement) is just one factor that can squeeze cash but cannot be understood from just looking at the income statement.

In Fig. 2, net income was almost identical from the previous year, but cash was used in 2018 for capital equipment, using a small new loan and the rest from cash reserves.

The BPAA Benchmark Study can be helpful in analyzing strengths and weakness in your center. Revenue per lane may direct your attention toward a need for increased marketing. Low revenue per lane may explain why building costs such as utilities, insurance and property taxes are higher compared to a center with higher revenue per lane.

The Benchmark Study also may help you understand if payroll, supply and repair costs are too high. Each center is different, but using the Benchmark Study is one of several useful tools available.

The next step is to develop a plan that identifies the items that will receive management's focus during the next period, and the results that are expected from the changes. These might include promotions that went well in the last month or year and should be continued, or developing new ones to replace those that didn't work.

Measuring the results against a budget or forecast is a critical part of the process. These measurements are as necessary as the score in your bowling game. What doesn't get measured doesn't get done, as the saying goes.

Some centers look ahead 30 days, while others also will put together a one-year plan at the beginning of the year to help focus on the long-term needs of the center. That allows cash to be set aside, or time to consult with a banker for borrowing the funds that are beyond what the center generates within in the time frame being considered.

No matter how small or large a center might be, cash management is a critical factor for every owner and manager.

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