

Food & Beverage - Elusive Cash Flow - By Joe Dunbar

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It is quite common to see restaurant owners work hard all year and make nothing at all. The difference between a winning operation and a loser is cash management.

Most of your cash will be spent on payrolls and paying suppliers. Landlords, mortgagees, tax authorities, insurers, banks and equipment companies consume more of your cash. Keeping track of single digit potential profits takes resolve.

Don't be in a rush to spend the operating cash flow. A 5% profit is about 18 days of sales each year. You make 1.5 days of sales each month in this profit range. A rainy weekend may wash away the profit. It's important to forecast cash flow.

With the cost of gas on the rise, consumers are tightening their belts. Some may switch to tap water in lieu of a soft drink. Others are skipping the dessert course. If your profits drop to 3.3%, you'll see only a single day of sales as profit each month. Inclement weather could ruin the entire month's cash flow.

You may not see the problem immediately. A restaurant operation disguises major problems for many days. Bad weather, slightly lower sales on a big weekend, a few slow spots in an otherwise busy week will all go undetected. These are all normal events.

One of the problems in our industry is the speed with which cash comes into an operation. For the uninitiated, it could seem like a fantastic cash cow. Customers use cash and credit cards for most of your sales. It all hits the bank account in days. They pay you in advance for sales taxes you probably pay quarterly. Do you have the cash available to pay your sales tax this quarter? This is typically the first sign of trouble. If you need to borrow to pay the sales tax, positive cash flow may be elusive.

Thanks!!!

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