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Living By The Budget

Solid Footing

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Tim Fraser For National Post

Tony Cappellano is happy about how his restaurant business, Boom Breakfast and Co., is faring these days. "We've held our own during this so-called downturn," he says. Mr. Cappellano launched the first Boom Breakfast in Toronto's College and Ossington area in 2002; two locations followed in 2007 and 2008, and the company is on track to launch two more in the next 12 months.

This in an industry where margins are incredibly tight and becoming even more so, while attracting investment is becoming increasingly difficult. "We are selling bacon and eggs today for $5.99. That's the same price I was selling them for 15 years ago," Mr. Cappellano says.

He credits his daily focus on cash flow as critical to keeping the company on solid financial footing and driving growth.

Put simply cash flow is the amount of cash coming in and going out of a company. But managing it effectively is a game of three dimensional chess, says Brad Cherniak, partner, Sapient Capital Partners in Toronto.

"While cash flow itself is a simple concept, it intersects with liquidity and capital and they are all intertwined. You can't analyze one without understanding the others. Businesses often fall into this trap. Managing cash flow effectively comes down to analyzing where you want to take the business, what you think it's going to cost you and how quickly you can grow."

Cash flow is always front of mind for Mr. Cappellano. "I know what my fixed expenses are every day. I know what I need to bring in every day. I set a budget for the week and keep percentages in line. We have married up with suppliers who can deliver to us every day. That allows me to keep my product fresh and cash in hand. The big suppliers don't need my money. And I don't want money sitting on the shelves."

Mr. Cherniak says that is exactly the kind of hands-on, proactive approach business owners should be taking when it comes to managing cash flow -- especially now. "If you manage your cash flow effectively, it will put you in a better position when we enter the recovery."

He offers a few key steps to managing cash flow:

Step 1 Analyze your balance sheet. How much money do you have today? Are you under pressure to repay loans? What is your liquidity situation? "Nothing else matters if you have a terrible balance sheet," Mr. Cherniak says. "Figure out what you have to work with and what your balance sheet is going to require to stay healthy."

Step 2 Create a simple but rigorous three-year forecast that can easily adapt to new situations. "Forecast seems to be a dirty word for many entrepreneurs, but unless and until you put together a forecast of where you think you can take your business in the next two to three years, you cannot effectively manage cash flow," Mr. Cherniak says. "If you put the forecast together right it will cause you to look at your staffing, your sales strategy, real fundamentals and from there you get a sense of what you should be doing cash-flow wise."

Step 3 Calibrate the forecast with the cash situation on your balance sheet and that will dictate how you run your business. For example, if you are cash flush, you may want to ramp up your forecast and hire more aggressively. If you are cash constrained and have debt coming due, you may have to lower sales forecasts and cut costs.

Mr. Cappellano sums up his approach to cash flow in this way: "Do your projections. Know what you'd like to make at the end of the day, at the end of the quarter, at the end of the year and know what your sales need to be on a daily basis. If you are not meeting those criteria, adjust. Most people wait too long or do it after the fact and then ask what happened?"