

Cash Flow and Break-Even Analysis - Two Essential Components for Every Business

A cash flow forecast, one of your most important management tools, is also the most challenging part of any entrepreneur's financial juggling act.

On a day to day, month to month basis you will use your cash flow forecast to monitor actual expenses versus planned expenses, anticipate and budget for future expenses and formulate credit and collection policies. It also serves as an early indicator for expenditures that are getting out of hand.

Cash flow planning requires sound business judgment about expected sales levels, rate of collections, purchasing inventory and budgeting expenses and will allow you to detect deficit and surplus patterns.

New business owners often underestimate the amount of capital needed to get started. While no one can expect to have a crystal ball in terms of perfect projections, you should provide your best estimates based on thorough research and analysis. Become knowledgeable about your business and be objective and realistic.

Once your cash flow forecast is done, don't put it away and forget it - refer to it often and use it to your advantage.

Break-even analysis is another essential decision making tool. A break-even analysis tells you how many units of a product (or service) must be sold, or how much revenue must be generated, in order to cover all expenses. *Only after you cross the breakeven point will your business start to make a profit.*

The analysis is also useful for showing a prospective financing source that you are aware of how much money you need to get your company going or to keep it going. It can also be used to chart positive cash flow for a planned new product or service.

If you are not reaching the break-even point, you will need to make adjustments! You can still break even when revenue activity falls off by reducing fixed costs, reducing the variable cost per unit and increasing revenue per unit.

You can visit Women's Enterprise Centre's online resource library <http://www.womensenterprise.ca/resources.php> and download documents that will help you arrive at a sound estimate of your cash flow projections and prepare your break-even analysis.

Here are links to documents that will more fully explain cash flow and break-even – and we've included an Excel spreadsheet with formulas built in to make that numbers thing a little easier for you!

- <http://www.womensenterprise.ca/resources/downloads/Cash%20Flow%20Overview.pdf>
- <http://www.womensenterprise.ca/resources/downloads/Break%20Even%20Analysis.pdf>
- <http://www.womensenterprise.ca/resources/downloads/CashFlowWithFormulas.xls>

Women's Enterprise Centre is the go-to place for BC women business owners for business loans, skills training, business advisory services, resources, publications and referrals.

Last year Women's Enterprise Centre's Information Services responded to over 6,100 inquiries. This segment about cash flow and break even was prepared in direct response to a large number of those inquiries.