

SNOW START UP

ISSUE #1: FOCUS ON **FINANCIALS**

Brought to you by **SIMA**



KNOW YOUR NUMBERS

You'll hear that a lot in the snow industry, and it starts with your financials. There are three basic financial statements you need to have at the ready. Each are essential to overall business management and directly impact your ability to not only succeed in your business but also guide your growth:



Income Statement

Are you earning a profit? Losing money? Don't know? Look no further than your Income Statement, sometimes called the Profit and Loss Statement or the Statement of Earnings. The income statement summarizes your company's revenues, cost of goods and expenses for a specific period of time. It illustrates the company's income figures and budgeted figures side by side, so that you'll know how your company is earning and spending its money compared with how it was intended.

REVIEW EARLY:

Don't wait until the end of the year to review your P&L. By then, it may be too late for your business to survive. Best practice is at least once a quarter, monthly as your business grows.



Balance Sheet

Your Balance Sheet shows the company's financial position on a particular date. It's a summary of what the company owns (current and fixed assets) and owes to others (current and long-term liabilities plus owner's equity). As indicated by the "balance" part of the name, the total of all assets must equal the total of all liabilities.

SET THE DATE:

A company can determine when it wants its 12-month fiscal year to begin. For a snow company, January 1 is not the best time to begin the year since it's in the middle of winter.



Cash Flow

Cash flow is the difference between the cash generated by a business and the cash it spends. A Statement of Cash Flows shows the cash and cash equivalents that the company has brought in and paid out from operational, investing and financing transactions. Essentially, it lets you know how much money you have (if any) to pay your bills, pay off loans, make new purchases or if further cash outlays need to be curbed. Cash-flow information cannot be derived from the information on the balance sheet or income statement.

BIGGER PICTURE:

Not only is the statement of cash flows important for the financial health of the company, but lenders look at business cash flow to decide whether to make a loan.

New and growing businesses are particularly vulnerable to cash flow problems. They purchase a disproportionate amount of equipment and materials to meet the needs of new customers, but the money from customers won't arrive until later (when it snows).

OVERHEAD 101

One of the biggest challenges to growing a small business is understanding the impact of overhead. It can become very complicated, and there are different ways to allocate overhead; but knowing those costs will directly impact decisions made in other areas of the business.

Vocabulary

Overhead: Any cost not directly attributable to the service delivery to any one customer — they do not change with production. These costs are listed under “Operating Expenses” in your Income Statement.

DIRECT VS. INDIRECT

All costs are either direct or indirect.

- Direct costs = directly related to producing the work
- Indirect costs = not directly related to the work



FIXED VS. VARIABLE

All costs are either fixed or variable.

- Fixed costs = do not change with production
- Variable costs = change with production

Examples of Direct Costs:

Direct labor Subcontractors
Fuel & oil Materials
Equipment used on the job

Examples of Fixed Costs:

Office rent Utilities
Advertising Administrative costs

Examples of Indirect Costs (Overhead):

Office rent Utilities
Advertising Administrative costs

Examples of Variable Costs:

Labor Material
Fuel Equipment usage costs

Calculating overhead

Your overhead costs are everything that fall below the Gross Margin line in your income statement (P&L statement). Your direct costs are above the gross margin line.



REVENUE

- DIRECT
JOB COSTS

=

GROSS
MARGIN

- INDIRECT
JOB COSTS

=

OPERATING
NET INCOME

This information is essential to help guide pricing; determine your profitability; and is necessary for future growth and sustainability of the company.

CONSIDER HIRING AN EXPERT:

If you don't have a strong financial background, one of the best investments you can make is hiring an accountant or consultant who can help.



AVOID CASH FLOW CRUNCH

Forecasts, timely adjustments can help you stay in the black

When snow is falling and jobs are piling up, it becomes easier to pay employees and cover expenses because you are generating predictable revenue. The difficulty lies when unexpected events or downtimes in the business cause a lack of cash flow. Many snow and ice businesses are seasonal, which makes it even more important to focus on cash flow since there is already periods with expected low cash flow.

A way to be prepared for potential cash flow shortfalls is to create a cash flow forecast. A cash flow forecast is different from other financial reports; it simply shows the expected cash coming in and out of the business. A cash flow report should be based on the known data that you have from the prior years.

-Continued on next page

TIPS FOR IMPROVING CASH FLOW

- Use electronic payment methods to automate the process
- Send out invoices immediately
- Be on top of collecting payments and charge customers fees if they are late on payment
- Accurate bookkeeping or hire a professional to help
- Depending on your contract structure, offer incentives to customers who pay up front or require customers to pay the first month's payment upon signing the contract

Controlling overhead

As a growing company, being top-heavy with overhead could prove costly. There are two key ways to manage overhead costs:

Increase income

Increase revenues and/or pricing to ensure you are able to support and cover your overhead costs. This would be key to a growing business

Is it necessary? ROI?

Ensure all of your overhead is necessary to support the business. It can be enticing to buy new equipment or hire a "really great" person when the business can't really support the cost.

MAKE SMART, DISCIPLINED DECISIONS

- Build an annual budget and strategic plan to guide decisions about adding overhead.
- Be disciplined to the plan when making capital purchase or high level hiring decisions.
- Review month by month actual performance against your budget to ensure you are staying on track.

Source: David Gallagher, founder of Spiritus Business Advisors, is a long-time SIMA member with more than 30 years of experience in snow & ice. Contact him at david@spiritusba.com. Additional content from SIMA's Snow Business magazine & Certified Snow Professional Study Manual.

ADDITIONAL RESOURCES

Members-only course: Building your Snow Business for Success train.sima.org

SIMA Certified Snow Professional: www.sima.org/csp

Online Course: Use ROI Targets for Snow Management Business Decisions train.sima.org

Online course: Know Your Numbers train.sima.org

Supplier Directory: Find software providers and consultants for support my.sima.org/homesupplierdirectory

CASH FLOW CRUNCH

PUT IT INTO PRACTICE

As an example, let's project the expected cash to come into the business for the next 6 months in 2021 (May to October). To determine this, we will focus on data in the points below:

- 1 Sales for each of the 6 months that you are forecasting from 2 years ago compared to the previous year.

	MAY	JUN	JUL	AUG	SEP	OCT
2019	\$20,000	\$22,000	\$17,000	\$27,000	\$21,000	\$16,000
2020	\$25,000	\$26,000	\$17,000	\$30,000	\$28,000	\$20,000
Growth rate	25%	18%	0%	11%	33%	25%

- 2 Total sales for the trailing 3-month time period before the first forecasted month (May 2021), compared to that 3-month total from the previous year.

	JAN	FEB	APR	TOTAL
2020	\$42,000	\$39,000	\$32,000	\$113,000
2021	\$50,000	\$42,000	\$38,000	\$130,000
Growth rate				15%

- 3 You can use these growth rates to determine a weighted average multiple to complete the forecast. In the forecast below, I weighted #1 and #2 at 50%, and based it off the 2020 data.

Projected sales calculation for May 2021:

$(\$25,000 * 1.25 * 50\%) + (\$25,000 * 1.15 * 50\%) = \$30,000$ projected sales for May 2021. Do this calculation for every month you project sales.

	MAY	JUN	JUL	AUG	SEP	OCT
2020	\$25,000	\$26,000	\$17,000	\$30,000	\$28,000	\$20,000
2021 Projection	\$30,000	\$30,290	\$18,275	\$33,900	\$34,720	\$24,000

Scenario planning

Scenario planning is a great tool to use in your cash flow forecast. If you are looking to hire employees or purchase expensive equipment, insert it into your forecast to ensure you leave enough cash in your business to prepare for those events.

Example: One of my snow services clients wanted to hire a full-time employee and purchase a truck. After the cash flow forecast meeting, it was evident that based on cash on hand, it was best to wait an additional month to avoid a cash flow problem.

Cash flow in business is not a joking matter.

Intuit's study found that 61% of small businesses struggle with cash flow, and nearly a third are unable to either pay vendors, pay back pending loans, or pay themselves or their employees due to cash flow issues.

Adjusting future scenarios like a lever in your forecast can give you visibility into your future cash flow position.

Example: One of my clients used the same salt supplier for 10 years but found another salt supplier that was charging 10% less. My client was able to use this knowledge as leverage to get better pricing from the current supplier.

Developing a cash flow forecast is an important tool, but it does not in itself drive improvement or changes in your business. It is important to take action based on what your financial reports and cash flow forecast show you.

Cycle CPA is a full service firm that offers bookkeeping, controller, and CFO services to service-based industries, including landscaping and snow and ice. For more information on cash flow forecasting and accounting, contact Carla Iniguez at carlap@cyclecpa.com.

Visit www.sima.org/startup for all Snow Startup resources

Trim size: 8.125" wide x 1.25" tall
With bleed on sides and bottom: 8.375" wide x 1.375" high