



BREWERY CASH FLOW STRATEGIES

Craft Brewery Financial Training.com
Kary Shumway, Founder

SCAN FOR FREE CASH FLOW
TOOLS



INTRODUCTION TO KARY

- Kary Shumway, CPA, CFO, Numbers Guy
- Partner and CFO for Wormtown Brewery, 15 years as CFO for Beer Distributor in Northeast
- Founder of Craft Brewery Financial Training.com and the Beer Business Finance Association
- Questions? Reach out to me - Kary@BeerBusinessFinance.com



OVERVIEW

1. Cash Flow Management Best Practices
2. Drivers of brewery cash flow
3. Scorecards to track and measure key cash flow metrics
4. Simple and Effective Cash Flow Tools

CASH FLOW BEST PRACTICES

- Accrual Accounting
 - Records transactions
 - Sales when earned, Expenses when incurred
- Cash Basis Accounting
 - Records actual cash in / cash out
 - Doesn't care when sales were earned or expense incurred

CASH FLOW BEST PRACTICES

There is a difference between Profit and Cash Flow and sometimes that difference can be huge...

Profit \neq Cash Flow

CASH FLOW BEST PRACTICES

“You can outsource tax work, bookkeeping, payroll...but you can’t outsource your cash flow management.”

-Chris Herron, Creature Comforts Brewing

CASH FLOW BEST PRACTICES

- Daily/weekly practices, regular focus
- Creating routines around cash flow
- Responsibility for numbers + ratios
- Financing plan, access to capital

DRIVERS OF BREWERY CASH FLOW

1. Accounts Receivable
2. Inventory
3. Accounts Payable
4. Capital Expenses
5. Loan / Debt Payments
6. Operating Income

CASH DRIVER #1 A/R

Accounts Receivable

- Money in
- Represents Uncollected Sales
- Key Measurements –
Days Sales Outstanding (DSO)

CASH DRIVER: A/R

Key Metric: Days Sales Outstanding (DSO) Calculation

<i>Accounts Receivable divided by Average Daily Sales</i>		
A/R Balance	\$	250,000
Average Daily Sales	\$	10,000
Days Sales Outstanding (DSO)		25.0

CASH DRIVER: A/R

Brewery					
A/R Aging Summary					
As of June XX, XXXX					
	0-30	31 - 60	61 - 90	91 and over	Total
Distributor 1	\$ 4,500.00	\$ 750.00			\$ 5,250.00
Distributor 2	\$ 1,500.00	\$ 500.00		\$ 250.00	\$ 2,250.00
Distributor 3	\$ 5,000.00	\$ 1,500.00			\$ 6,500.00
Distributor 4				\$1,000.00	\$ 1,000.00
Distributor 5	\$ 7,500.00	\$ 2,500.00			\$ 10,000.00
Total	\$ 18,500.00	\$ 5,250.00	\$ -	\$1,250.00	\$ 25,000.00

ACTION ITEMS: A/R

- Calculate your current Days Sales Outstanding in A/R
- Communicate the goal to everyone who can make an impact on improving the number
- Establish a regular routine to review A/R aging
- Hire the right A/R person + train on collections

CASH DRIVER #2 INVENTORY

Inventory

- Finished goods, WIP, Raw materials
- Cash in a different form
- Measurement
 - **Days on Hand (DOH)**

CASH DRIVER: INVENTORY

Key Measurement: Inventory Days on Hand (DOH)					
<i>Inventory Days on Hand = Inventory divided by Forecasted Sales</i>					
<u>Days On Hand (DOH)</u>					
Inventory on Hand		10,000	Cases		
Daily Forecasted Sales		500	Cases		
DOH Score		20	Days		
DOH Goal		10	Days		

ACTION ITEMS: INVENTORY

- Calculate your Days on Hand (DOH)
- Communicate the goal to your team
- Establish a regular routine to monitor the detailed inventory report
- Walk the brewery and warehouse

CASH DRIVER #3 A/P

Accounts Payable

- Money Out
- Unpaid Expenses
- Measurement
 - **Days Payable Outstanding (DPO)**
 - How long it takes to pay

CASH DRIVER: A/P

Key Measurement: Days Payable Outstanding (DPO)			
Days Payable Outstanding = A/P divided by average daily purchases			
<u>Days Payable Outstanding (DPO)</u>			
Accounts Payable Balance	\$ 200,000		
Total Purchases / Month	\$ 300,000		
Days in Month	30		
Average Purchases / Day	\$ 10,000		
Days Payable Outstanding	20		

CASH DRIVER: A/P

Brewery					
A/P Aging Summary					
As of June XX, XXXX					
	1 - 30	31 - 60	61 - 90	91 and over	Total
Vendor 1	\$ 250.00				\$ 250.00
Vendor 2	\$ 500.00				\$ 500.00
Vendor 3		\$1,000.00			\$ 1,000.00
Vendor 4		\$1,500.00			\$ 1,500.00
Vendor 5	\$ 450.00				\$ 450.00
Vendor 6	\$ 350.00				\$ 350.00
Vendor 7	\$ 700.00				\$ 700.00
Vendor 8				\$ 600.00	\$ 600.00
Vendor 9	\$ 250.00				\$ 250.00
Vendor 10	\$ 100.00				\$ 100.00
Vendor 11		\$2,500.00			\$ 2,500.00
Vendor 12	\$ -	\$ -	\$ 1,000.00	\$ -	\$ 1,000.00
Total	\$ 2,600.00	\$5,000.00	\$ 1,000.00	\$ 600.00	\$ 9,200.00

ACTION ITEMS: ACCOUNTS PAYABLE

- Calculate your Days Payable Outstanding
- Regular review of A/P aging report
- Examine your invoice approval and payment process

CASH DRIVER #4 CAPEX

Capital Expenses

- Tanks, canning line, brewery improvements...
- Key: Control the spend
- Measurement
 - Return on Investment (ROI)

CASH DRIVER: CAPEX

XYZ Brewery					
Return on Investment Calculation					
Overview: Currently mobile canning company comes 2x month, produces 1,000 cases at a total cost of \$8/case, or \$8,000 each run, and \$16,000 per month.					
A new canning line delivered and installed will be approximately \$160,000.					
Current cost structure:					
Mobile canning Monthly cost	\$ 16,000.00				
Proposed capital purchase:					
New Canning line	\$160,000.00				
Payback in Months		10			

CASH DRIVER: CAPEX

Capital Budget Template							
For the Year XXXX							
Expected Purchase Date							
<u>Requested Purchase</u>	<u>DEPT</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>REQ BY</u>	<u>Total</u>
Sales/Merchandising car	Sales			\$ 22,000	\$ 22,000	Tom G.	\$44,000
New Kegs	Brewery		\$ 8,500	\$ 7,500		Andy C.	\$16,000
Floor scrubber / cleaner	Brewery	\$ 5,000				Andy C.	\$ 5,000
New flooring / bar area	Tap Room		\$ 15,000			James K.	\$15,000
Totals		\$ 5,000	\$ 23,500	\$ 29,500	\$ 22,000		\$80,000

ACTION ITEMS: CAPITAL EXPENSES

- Calculate your Return on Investments
- Create a capital budget
- Set up an equipment line of credit with your bank
- Lease vs. Buy: options for leasing instead of purchasing an asset

CASH DRIVER #5 LOAN PAYMENTS

Loan Payments

- Monthly payments of principal and interest
- Measurement
 - Debt Service Coverage Ratio

DEBT SERVICE COVERAGE RATIO

- Debt Service = Payments on the loan
 - Principal and Interest, measured on a quarterly or annual basis
- Debt Service Coverage Ratio = How well your cash flow covers the debt payments
 - Cash flow generally means EBITDA plus/minus other financial items

DEBT SERVICE COVERAGE RATIO

- Debt Service = \$100,000
 - Total payments over a period of time
- Coverage = \$150,000
 - Total EBITDA over a period of time
- DSCR = 1.5x
 - Total Coverage divided by Total Payments

ACTION ITEMS: LOAN PAYMENTS

- Add DSCR calculation to monthly reporting
- Meeting with lender to review options for access to capital
 - Working capital line of credit, equipment line of credit

CASH DRIVER #6: OPERATING INCOME

- Methods to create a cash flow forecast
- Steps to build an income statement and balance sheet budget

CASH FLOW MODELS

- Key metrics scorecard
- 8-week cash flow tracker
- 3-step system to manage cash flow

3-STEP SYSTEM TO MANAGE CASH FLOW

1. Find out how and where money leaves your business
2. Insert yourself into the money-out process
3. Review past spending ... and adjust

3-STEP SYSTEM TO MANAGE CASH FLOW

#1 Find out how and where money leaves your business

- Accounts payable
- Manual Checks
- Payroll
- ACH / EFT

3-STEP SYSTEM TO MANAGE CASH FLOW

#2 Insert yourself into the money-out process

- Sign every check
- Review every invoice
- Test the A/P process and procedures

3-STEP SYSTEM TO MANAGE CASH FLOW

#3 Review past spending ... and adjust

- General ledger transactions
- Same time period last year
- Expenses that are upcoming

WRAP UP

1. Cash Flow Management Best Practices
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