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Build a better budget

Planning for the winter season involves balancing many aspects of your business. You need to make plans and understand how each area of the business will be managed.

One of the more challenging aspects is developing a meaningful budget or financial plan. Because of the seasonality of the snow business, we can only estimate our revenues and expenses based on averages, previous years' experience and models that we have created.

MANAGING *for* SUCCESS

Evaluate your plan

The financial plan is vitally important to the business. It impacts and ties together every aspect of the business:

- **Sales.** Your sales goal for replacing lost business or adding new business is based on your projections for profit and necessary overhead recovery. Not only does the financial plan tell you what you have to sell, but it also determines the amount of expense that you will need to invest to make the sales a reality. Avoid the lure of "just one more job" and the appearance of easy money. Taking on all the work that comes your way may put your business at risk if you don't have the cash to support the growth.
- **Marketing.** Generating leads for the sales team comes through marketing, be it advertising, public relations or social media. Your financial plan must account for the appropriate level of marketing. Too little and you may not have enough prospects to reach your goals. Too much and not only will you have overspent for your needs, but you risk having too many prospects that you cannot afford to convert to a sale.
- **Operations/Production.** What equipment do you have, and what new equipment will you need to service your clients? If you plan to take advantage of preseason equipment and material discounts vendors may offer, build that into your plan.
- **Administration.** Are your systems sufficient to support your current or anticipated size of the business? How does information flow through your business? Do you need to make changes or upgrade your systems? Will you invest in staff development? How will your financial plan accommodate these needs?
- **Human resources.** How will you compensate your staff? How much staff do you need in sales, operations, administration? What company resources will you invest in the hiring process to ensure you are adequately staffed?
- **Legal.** Contracts for your customers and subcontractors need to be reviewed and managed. Will internal or external resources be used?
- **Financial planning.** Beyond budgeting profit and loss, you will need to budget cash flow. When will you receive your money? How and when will you pay vendors and cover payroll and other related operating expenses?

What's your financial breaking point?

Test your plan by considering a couple of scenarios:

Scenario One: Early snowfall brings relentless storms that result in significant revenue but come at the expense of heavy material costs and payroll that is due within the week. Depending on how quickly you can invoice, and the terms you extend to your customers, you may not see payment for 30 to 60 days. How much cash will you have on hand to support this work? Without collecting on your receivables, how much snow can you support before your cash runs out?

Scenario Two: Snow doesn't begin falling until mid-season, requiring you to cover two months of overhead. Receivables won't come in until late January or February. How long can you survive before you run out of cash? What happens if this snowfall is heavy and continuous, which compounds your cash requirements?

Depending on your region and market you may have a blend of fixed, seasonal contracts and variable, per-occurrence income. Seasonal money provides consistent cash flow throughout the season but may not provide sufficient cash at certain points of the season. Having more per-occurrence contracts is risky in a low-snow season.

Because we can't predict the snowfall, you must have access to cash to cover various scenarios. For example, what happens if you damage equipment and have significant repair costs? What if material costs increase midseason? What if you experience a disaster like stolen equipment, a fire or flood? Don't expect insurance to ride to the rescue on your time frame.

Personal financial planners will advise clients to have the equivalent of six months of living expenses in savings. The same advice applies to our businesses. Beyond your working capital, going into the start of the season, you will need additional access to cash in case of emergency or challenges like those outlined above. How much cash you need is going to be based on your particular business and your aversion to risk.

Cash management

Growing your business will consume cash. Having a plan for how you intend to handle this growth is critical to ensuring that you do not fall victim to a common trap in contracting—running out of cash. Cash is like oxygen. Your company needs it to live. Avoid the suffocating experience of running out of cash when the bills are due by planning ahead.

How much cash you need is based on your expenses and how you plan to pay for them. Will you buy on credit or pay cash? Planning when these expenses will occur can be tricky, but it is necessary. You have fixed start-up costs, such as pre-season material orders, that you can anticipate. Your variable expenses, including labor, replacement material and fuel, will occur as a result of service. Planned investments in equipment, technology and people will likely occur as you gear up and move into the winter season. How much and when will depend on your plan.

Meeting your obligations

Where will you get the cash to pay employees and vendors?

- **Cash on hand.** Cash collected from your operations is a valuable resource and needs to be managed carefully. Use it all without having the ability to replace it in a timely fashion and your business will die. You need a minimum of 10% and likely upward of 30% of working capital to manage the seasonal fluctuation of the snow business.
- **Receivables.** When you complete your service and invoice your customer, the receivable is considered a current asset (you expect to collect cash from the customer within the next 30 or so days). This is your pipeline of incoming cash and must—at a minimum—be able to cover short-term expenses due in the coming 30 days.
- **Sale of assets.** Sell unproductive or underused assets to free up cash, which can be applied to other areas—or save it to increase your working capital.
- **Credit.** Vendor credit is valuable. Negotiate more favorable terms to help preserve early season cash. You can use a credit card, line of credit or a business loan from a lending institution. A loan might be used to buy equipment or a more significant asset, while a line of credit provides a source of cash to cover short-term expenses. You may choose to personally loan your business money, but you must weigh the opportunity cost and risk. SB

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