

Seasonal Business Or Not, Cash Flow Can Get Muddy Fast

6 min read



Key Takeaways

- While cash flow problems exist for all businesses, seasonal businesses often face exceptionally difficult cash flow issues. To manage it, business owners need to know their true costs throughout the year. To nail down your costs, you need to diligently record, categorize, and track expenses for the entire year.
- Keeping tabs on business expenses will help you allocate ongoing overhead expenses during the off-season to jobs you do during the on-season. This way you'll be charging your customers for the true cost of doing business including both your direct, seasonal expenses and indirect year-round expenses.
- Decisions can't be made without information. Automation puts reliable information in front of you so you aren't making decisions based on your gut.

Let's face it- no matter how great your business model is, or how profitable you are, you can't survive without a healthy cash flow.

Cash flow is the driving force of every business operation.

To have a transparent picture of your business's financial health at all times, you must always keep tabs on your cash flow with up-to-date cash flow reports and forecasting.

If you fail to take steps to manage cash flow, you start having cash flow problems that only get worse, such as shortages that force business owners to make tough decisions and often result in businesses closing their doors.

Why Cash Flow Management Is More Difficult for Seasonal Businesses

While cash flow problems exist for all businesses, seasonal businesses often face exceptionally difficult cash flow issues.

In particular, seasonal cash flow problems can be even more challenging for service-based businesses. These problems arise due to the seasonal ebbing and flowing nature of revenue combined with ongoing, unyielding costs.

Consequences of being Unprepared for Seasonal Slow Down

A positive cash flow and money in the bank are essential to ongoing business operations. You need enough cash coming into your business at the right times so that you can cover payroll costs, keep your office open and the lights on, pay vendors, and cover all the other necessary costs of doing business without incurring late fees, damaging your credit, or losing financed assets to the bank.

When a business encounters an unforeseen cash-flow shortage, the best-case scenario is that the CEO makes some difficult decisions to cut costs quickly (like temporary or permanent layoffs or a temporary closure). By cutting costs, the business will hopefully be able to continue covering loan payments, payroll, and other financial obligations until the busy season resumes.

Worst-case scenario? The business can't keep up with ongoing expenses and is forced to close.

Unfortunately, business owners face this worst-case scenario due to cash flow shortages all too often. In fact, a staggering 82% of businesses fail due to cash flow problems, according to a study from U.S. Bank [1].

If you run a seasonal business or a business that has seasonality to its cash flow trends, then you're at an even greater risk of suffering from cash flow shortages.

Not a Seasonal Business? That's just a nuance...

This might seem like a simple question to answer, and for some businesses, it is. The weather, holidays, and travel seasons have a direct effect on a variety of businesses- like ski resorts, companies in the travel & hospitality industry, ice cream parlors, Halloween shops, and construction companies working in volatile climates, and the suppliers and [engineering firms](#) on which they rely.

While these types of businesses might have obvious seasonality, other types can be seasonal but in a less striking way.

Even if you offer a service that seems like it would be in equal demand throughout the year, there might be other factors that affect your sales and revenue, such as market fluctuations or tax season, when your customers have less money to spend on your services.

This is why keeping your finger on the pulse of your financials is crucial. You can identify seasonal shifts and trends in your business's financials by keeping track of your numbers and closely monitoring your [management reports](#). Identifying these trends will help you improve your cash flow forecasting and budgeting to develop a more stable, secure, and successful business strategy.

Whether your business is seasonal or not, you must take steps to improve your cash flow management with accurate data, up-to-date financial reporting, and cash flow forecasting based on your accurate numbers.

5 Strategies to Improve Cash Flow Management in a Seasonal Business

1. Know Your Costs

To manage cash flow, business owners need to know their true costs throughout the year. To nail down your costs, you need to diligently record, categorize, and track expenses for the entire year.

While budgeting, be sure to consider the way your costs might fluctuate throughout the year. For example, utilities might be high when operating air conditioning in the summer, commercial insurance policies might fluctuate depending on what equipment you're operating, or fuel expenses might be higher or lower depending on the season.

2. Optimize Pricing

Pricing is arguably the most challenging decision a business owner will make.

And as a result- the crux of most businesses' cash flow issues is pricing.

“Most business owners are not pricing their jobs enough to generate profit margin that will contribute to pay for the overhead and to contribute to profits”

Stephen King, GrowthForce CEO, recently joined [Spencer Shaw](#) on [The Business Growth Podcast](#), discussing simple steps to get your financials in order. [Listen to the full podcast here.](#)

When you set rates and prices, keep in mind you will need to be able to cover your overhead expenses during the off-season. You can do this by tracking costs to budget for the entire year and ensuring these costs are included in your prices.

Keeping careful tabs on expenses will help you allocate ongoing overhead expenses during the off-season to jobs you do during the on-season. This way you'll be charging your customers for the true cost of doing business including both your direct, seasonal expenses and indirect year-round expenses.

3. Improve Collections

In all businesses, sluggish receivables can be a real drag on cash flow. When your clients are slow to pay, it can leave you short on the cash you need to pay your bills and keep your business moving.

Improving your accounts receivable and shrinking your day's [sales outstanding](#) numbers will strengthen your cash flow. Focus on communicating payment expectations to clients before rendering services, automate invoicing, consider collecting partial payment up-front, and set your business up to accept electronic payments to simplify the payment process for your clients.

4. Automate Your Back Office

Cash flow forecasting is hard – without an [automated back office](#), that is.

Decisions can't be made without information. [Automation](#) puts reliable information in front of you so you aren't making decisions based on your gut. When you automate as many manual bookkeeping and accounting processes as you can, you'll find that financial data

and easily understandable financial insights, like cash flow forecasts, are continuously at your fingertips.

Additionally, automation reduces opportunities for human error and streamlines all your reporting processes. As a result, you'll always have current numbers you can rely on.

5. Focus on Forecasting

With a back-office that's fully (or mostly) automated you'll be able to easily forecast your cash flow.

With an established record of your business's financial history paired with a robust, fully integrated bookkeeping and accounting software like QuickBooks, you can easily pull 12 or 13-month cash flow forecasts that will use your data to help you anticipate and better plan for upcoming cash flow shortages.

[Download The FULL CEO's Guide to Improving Cash Flow eBook Here.](#)

Plan for the Worst, But Strategize for the Best

Part of your cash flow forecasting should look at an expected forecast, a worst-case scenario forecast, and a best-case scenario forecast. Taking all of these possibilities into account will help you plan for the worst while positioning yourself for the best outcome possible during your down season.

One advantage of running a seasonal business is that you already know things are going to slow down, so the downturn shouldn't surprise you. This means you have every opportunity to prepare for the downturn and brainstorm strategies to improve your cash flow during this time by either reducing costs during the down season, offering different services to increase revenue, or looking for gap financing to get you through to the busy season.

Taking steps now to avoid the worst-case cash flow scenario is well worth the effort; it just might mean the difference between operating a successful business for years to come or going out of business next season.

[1] <https://www.nfib.com/content/resources/start-a-business/why-do-small-businesses-fail/>