FINANCE, MODULE 9

Cash and runway

Profitable clinics run out of cash. It happens because profit and cash are different things, because the year has a shape, and because the biggest bills do not arrive monthly. After this module you know why the bank balance moves the way it does, what runway is, and the five habits that keep a clinic out of trouble. The full forecast is in Advanced 2.

Why profit and cash are different

Finance 1 showed Harbor with $4,400 of profit and cash up $18,000 in the same month. Four things move cash without touching profit, and profit without touching cash:

What happened	Profit	Cash
Patient prepays a $2,400 package	No change (earned as delivered)	Up $2,400 today
Loan payment: $1,800 interest, $2,200 principal	Down $1,800	Down $4,000
Buy $12,000 of neurotoxin for the shelf	No change (it is inventory until used)	Down $12,000
Depreciation on the laser	Down $5,000	No change (the cash left when it was bought)
Card processor holds Friday's deposits until Tuesday	No change	Down until Tuesday
Quarterly insurance, annual software renewal, estimated taxes	Spread across months	Out in one lump

The one to remember. Prepaid packages and memberships are cash you are holding for patients, not cash you have earned. A clinic that spends its deferred revenue is borrowing from its own patients. The balance sheet line "prepaid packages and credits" (Finance 5) is the amount you owe.

Runway

Cash on hand divided by average monthly operating cost. Harbor has $61,000 in the bank and spends about $85,000 a month running the clinic: runway is 0.7 months. That means one slow month, one late processor deposit, or one laser repair puts payroll at risk. **Three months is the floor we work to.** Getting there is a two year project for most clinics and the reason the scorecard shows the number every month.

Until runway passes two months: no new hires, no marketing increase, no new device. Every one of those is a bet, and a clinic with three weeks of cash cannot afford to lose one.

The shape of the year

Medspa cash follows a pattern: strong in the two months before the holidays and before summer, soft in January and late summer, with a lump of annual bills (insurance, software renewals, the medical director's annual fee, estimated taxes) that land whenever they land. Write the lumps on a twelve month calendar. The clinic that knows the $9,000 insurance premium hits in October does not discover it in October.

Five habits that keep a clinic liquid

1. **Separate the money you are holding.** Move a share of package and membership sales to a second account each month, so deferred revenue is real cash, not a number.
2. **Order to par, monthly** (Operations 3). Product on the shelf is cash on the shelf.
3. **Know your processor's deposit schedule** and negotiate next day funding. A four day hold on a $150,000 month is $20,000 of cash sitting somewhere else.
4. **Pay yourself a salary, not whatever is left.** A fixed owner salary makes cash predictable and is what a buyer expects (Advanced 4).
5. **Set a runway target and a date**, and treat it like a bill. One percent of revenue a month into the cushion account until it holds three months.

When cash is short

In order: collect what is owed (the aging report), slow the product order to par, pause the marketing increase, delay the discretionary purchase, then talk to the bank before you need to, not after. A line of credit arranged in a good month is cheap; one requested in a bad month is expensive or unavailable. Never fund a shortfall from sales tax collected or payroll taxes withheld; those are not your money and the penalties are severe.

> **Where Benchmark comes in.** Cash runway is one of the six numbers on page one of your scorecard. The annual calendar of lumps is built in the sprint. The cash forecast is the 13-week forecast (Advanced 2), refreshed every month, which is the tool that turns "are we OK" into a number.

Try it yourself

- [ ] Cash in the bank today divided by last month's operating expenses. Write the runway down.

- [ ] List every bill over $2,000 that is not monthly. Put each on a calendar with its month.
- [ ] Find your card processor's funding schedule on the statement. If it is more than two days, ask for next day.

Check yourself: Finance 9

Cash on hand $61,000, monthly operating cost $85,000. Runway is

- 1.4 months
- 0.7 months
- 3 months

61,000 divided by 85,000.

Buying $12,000 of neurotoxin for the shelf

- Reduces profit by $12,000
- Reduces cash by $12,000 and profit by nothing until it is used
- Changes neither

Inventory is an asset until used. Cash is gone the day it is bought.

Deferred revenue from packages is best thought of as

- Profit
- Cash you are holding for patients
- A marketing expense

You owe the visits. Spending it is borrowing from your patients.

Runway is 1.5 months. Which is the right move?

- Hire the second injector; revenue will follow
- Hold hires, marketing increases and devices until runway passes two months
- Increase ad spend to grow out of it

Every one of those is a bet a clinic with six weeks of cash cannot afford to lose.

The one source of cash never to use for a shortfall is

- A line of credit
- Sales tax collected and payroll taxes withheld
- Delaying a device purchase

Not your money, and the penalties are severe.

Pick an answer for each question.

Want this done, not just explained?

The 10-Day Sprint finds the leaks for $1,000, one time. After that, on the plan, the scorecard keeps coming and at least one growth initiative is executed with you every month. Plans from $2,299 a month. Everything in this module is part of that work.

See the sprint and pricing | Text Nate

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