Guide to

Managing Cash Flow in a Crisis (and beyond)

Insights for business owners & accounting professionals

May 2020

"Cash flow is the oxygen of a business."

"Monitoring and forecasting cash flow is as critical to a business as having a bank account."

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Executive Summary

The COVID-19 pandemic is affecting millions of businesses across the world, causing stress and strain on businesses like we have never seen before.

Although this is certainly a difficult storm for businesses to weather, this is not the first (nor the last) crisis that will affect your business.

The best way to navigate any crisis is to be fully prepared. When it comes to your business, one of the most important ways to be prepared is to understand and forecast your cash flow on an ongoing and scheduled basis.

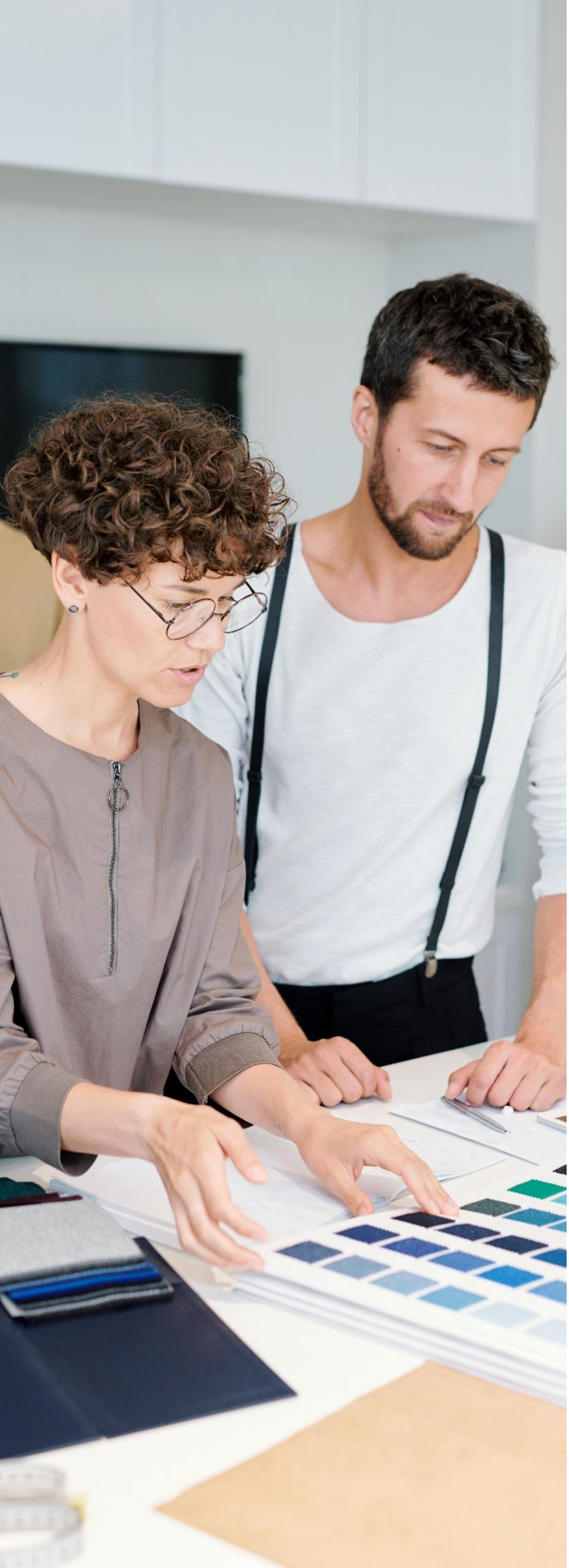
Most businesses review their financial information monthly. Although this is an important step, relying solely on monthly financial statements to drive (or inform) business decisions can result in missed opportunities and a delay in response times to cash challenges.

To combat this, and particularly to help weather a storm, we recommend implementing a weekly cash flow process or at a minimum, monthly.

A weekly process includes 3 components: reviewing what happened (the past), where we are today (the present) and where we are going (the future).

Whether you find yourself in crisis mode or not, this guide will help you get started to develop your Baseline Forecast and introduce scenario planning to make better decisions.

Having a system in place to focus on cash flow – both where you have been (monitoring) and where you are going (forecasting) will put your company in the best position to survive and thrive, regardless of the circumstances.



Introduction

Cash flow is the oxygen of a business.

A business needs the right amount, at the right intervals, to maintain good business health. Too little and a business may survive, but it will be in a weakened state. This can make it difficult to survive an economic downturn or fend off competitors. Too much and a business may become "lightheaded". This can cause poor decisions and swing the pendulum the other way, suddenly the business finds itself suffocating and gasping for air (cash).

Entrepreneurs & owner-managed businesses often ask themselves, "Do we have enough money? Can we afford it?"

Why are these questions asked? In today's age, you can log into your bank account in seconds using your smartphone and know exactly how much cash you have available. Why isn't that enough?

The short answer: your current cash balance is only one piece of the puzzle.

Introduction

Imagine driving a car without a windshield or a rearview mirror, just windows on the left and right. You could see where you are at that given moment by looking side-to-side, but not where you came from or where you are going. You wouldn't know if you were inches away from an accident or if a broken bridge lies ahead. Pretty scary right?

Sometimes, ignorance is bliss. But this does not apply to cash flow (or driving your car for that matter!). In fact:

> Monitoring and forecasting cash flow is as critical to a business as having a bank account.

Without monitoring and continually projecting future cash balances, we are simply using our bank balance as a marker at that given moment (our side windows). When we monitor our historical cash flow, we have a clear view of what happened and where we came from (our rearview mirrors). And one step further, with cash flow forecasting, we have visibility into what is coming so we can make decisions and plan ahead (our windshield).

As this whitepaper is written, the COVID-19 pandemic is affecting millions of businesses across the world, causing stress and strain on individuals, companies, entire industries, and even national economies.

Although this is proving to be a particularly difficult storm for businesses to weather, this is not the first (nor the last) crisis that will affect your business.

Anatomy of a Cash Flow Crisis

A crisis can come in many forms. It can be company specific (losing a large client or supplier relationship), industry specific (shifts in technology or processes used) or affect a whole economy (recession).

As businesses struggle through the recent COVID-19 crisis, the common cash flow questions during normal times ("Do we have enough money? Can we afford it?") are followed by more difficult ones. These questions challenge the very survival of a business and the livelihood of its owners and employees.

"Do I need to lay people off? How long will the cash we have today last? Are we going to go out of business?"

Contrary to the popularity of the surprise party, no one actually likes surprises. Especially when it comes to cash balances, availability of cash, and certainly the ultimate survival of a business.

When a business finds itself in a crisis, a spotlight emerges and focuses immediately on that crisis. How do you know if you headed towards a potential cash flow crisis? Here are a few symptoms you may experience:

- Hesitation in paying vendors because those funds are needed for payroll
- Dipping into your personal funds to pay for business expenses
- Taking on more debt (loans, lines of credit) to pay for operating expenses
- Inability to reward your hard-working employees with a raise, small bonus or even something as simple as a company lunch
- Calling customers to collect amounts owed to you and offering discounts to speed up payment
- Avoiding calls in case someone is calling to collect on your outstanding bills
- If you are the business owner and you are paying yourself little or not at all, this is a BIG RED FLAG

If there is a good process in place for monitoring and forecasting cash, you can immediately start weighing options and strategizing for how to navigate the crisis. You can outline different scenarios and what-ifs to map out your options and possibilities. Most importantly, you can start on the fly from a position of confidence.

If you do <u>not</u> have a process for monitoring and forecasting cash flow, this is often referred to as starting "behind the eight ball". Meaning, the race has already begun, and you are not yet at the starting gate.

Critical time must be spent gathering information to figure out not only where we are today, but a reasonable expectation for the future (called your 'Baseline Forecast'). If you start from scratch, it could take days to gather enough information from your accounting software, bank registers, sales forecasts, debt schedules and more to be ready to sit down and try to interpret the information. And gathering all that data is just the first step, you will still need to analyze and assemble it in order to develop a plan and forecast.

In a crisis, fast decisions can be the difference between survival and all kinds of unpleasant alternatives.

What about...
When things are 'Normal'?

Even when there isn't a crisis (like COVID-19) at hand, businesses have historically struggled with cash flow. According to Intuit's 'State of Small Business Cash Flow' report, 61% of small businesses regularly struggle with cash flow and 69% of their owners have been kept up at night by cash flow concerns.[1]

If cash is so critical to business survival and most business owners identify cash flow as a struggle that causes them stress, why don't they focus on it more often?

The answer is that traditional financial statements (the income statement, balance sheet and cash flow statement) provided to business owners by their accountants can be difficult to interpret and don't tell the whole cash flow story. Even the cash flow statement, which based solely by name you would think would help, does little more than tell us the major categories where cash was spent, but tells us nothing about the future.

This is amplified by the fact that financial statements are prepared and reviewed monthly.

Reviewing your numbers monthly works for measuring performance against budgets and benchmarks, but you can lose sight of important activity (and miss out on opportunities) if you rely solely on monthly financial statements.

1 – Wakefield Research survey – Jan 2019

Here’s a simple example of insights and opportunities that are lost on the collections (accounts receivable) side by only looking at information monthly.

- On April 6, the accountant reviews March financials statements with the owner and notes a large accounts receivable balance. Specifically one “Big Customer” invoice was overdue
- On April 7, the owner assigns the follow up to a team member
- On April 8, the “Big Customer” says they will send the payment today. Great!
- On May 4, the accountant reviews April financial statements with the owner and unfortunately, the “Big Customer” invoice is still outstanding

The invoice is now 30 days older and more difficult to collect. Worse, when the business owner calls, they learn the customer has cash flow problems and are now unable to pay. What now? A thought-to-be profitable job just became a huge expense and cash flow headache. Had the missed payment been noted during the April 13 weekly cash flow meeting, the business may have been able take action to reduce the impact. But now, facing the full brunt of this situation at once, the business has fewer options.

This is good time to remind everyone:

A lack of focus on cash can actually create a cash flow crisis!

If the business had a weekly or bi-weekly process in place to review cash activity and update their cash flow forecast, the payment delay would have been caught much earlier and they would have been able to take action sooner.

The case for…

A Weekly Cash Flow Process

When cash management is part of the business routine, it becomes a proactive component of daily and weekly operations. It always makes me smile to hear from business owners who are “amazed” at how their previous cash shortage problems seem to have evaporated once they took control of their business finances. They have discovered how to use their cash position to drive performance ahead. To protect your business, your employees, and your livelihood, implementing ongoing cash flow processes are critical.

At Jetstream, cash flow is a weekly habit for my clients, and we do this together. If you work with an accounting professional, ask them to do the same with you, or if you prefer, you can do this on your own with your team. The most important thing is that it is done. Period!

> By focusing on cash weekly, you can spend a small amount of time each week staying up to date and easily spot cash challenges before they become a problem or identify opportunities before they are missed.

The more frequently you check in on your cash flow, the more familiar it will be to you and your team. Much like a language, with repetition and practice, you will become fluent in cash flow as it relates to your company. Imagine if you learned to speak a foreign language but only spoke it once a month or once a quarter (the cadence that many businesses and accounting professionals engage in reviewing financial information). The downsides to this infrequent activity would include:

- Finding out you have been misusing a phrase (making poor financial decisions)
- Allowing bad habits to set in that need to be corrected – this erodes confidence and makes future decisions more stressful
- Stumbling through a conversation without confidence you understand the information and advice you may be receiving

With those results, it’s no wonder business owners might avoid having these meetings with their accountant or even go through the information on their own. As emotional beings, we avoid most situations that create negative feelings!

What Does a Weekly Cash Flow Process Look Like?

Here's a quick overview of what to go through on a week-by-week basis using the same car analogy:

What happened (your rear-view mirror)	Where are we today (side windows)	Where are we going (your windshield)
Review the past week's cash activity, including where it was generated from (sales, credit line, owner contributions) and where it was spent (cost of goods sold, payroll, other expenditures). Was this in or out of line with the expectation you had last week?	Understand your cash balance today across all bank accounts and credit card balances. Examine your outstanding invoices (accounts receivable): what is due in the coming week, who is late, what actions need to be taken? Examine outstanding bills (accounts payable): what is due in the coming week, is anything overdue? Examine your outstanding debt (if any) and your payment schedule.	Based on what happened last week, where you are today, and your knowledge of upcoming events, forecast expected cash inflows and planned cash outflows for at least the next 4-8 weeks. Focus particularly on the next 1-2 weeks, so you know what needs to be addressed immediately. Many businesses take this a step further and have a rolling 13-week cash flow forecast at all times, running different scenarios based on of this so they have a base case, best case, and worst case lined up

At the end of this process, you should be confident in knowing:

- I understand where my cash came from and where it went last week
- I know how much cash is in the bank today, and if there are any critical unpaid bills or open invoices outstanding from customers that need action NOW
- I have an expectation of upcoming cash inflows, cash outflows, and my resulting cash balance for at least the next 4-8 weeks
- I have a list of action Items to help make that cash flow forecast a reality (customer follow ups, payments to vendors, purchase decisions, etc.)

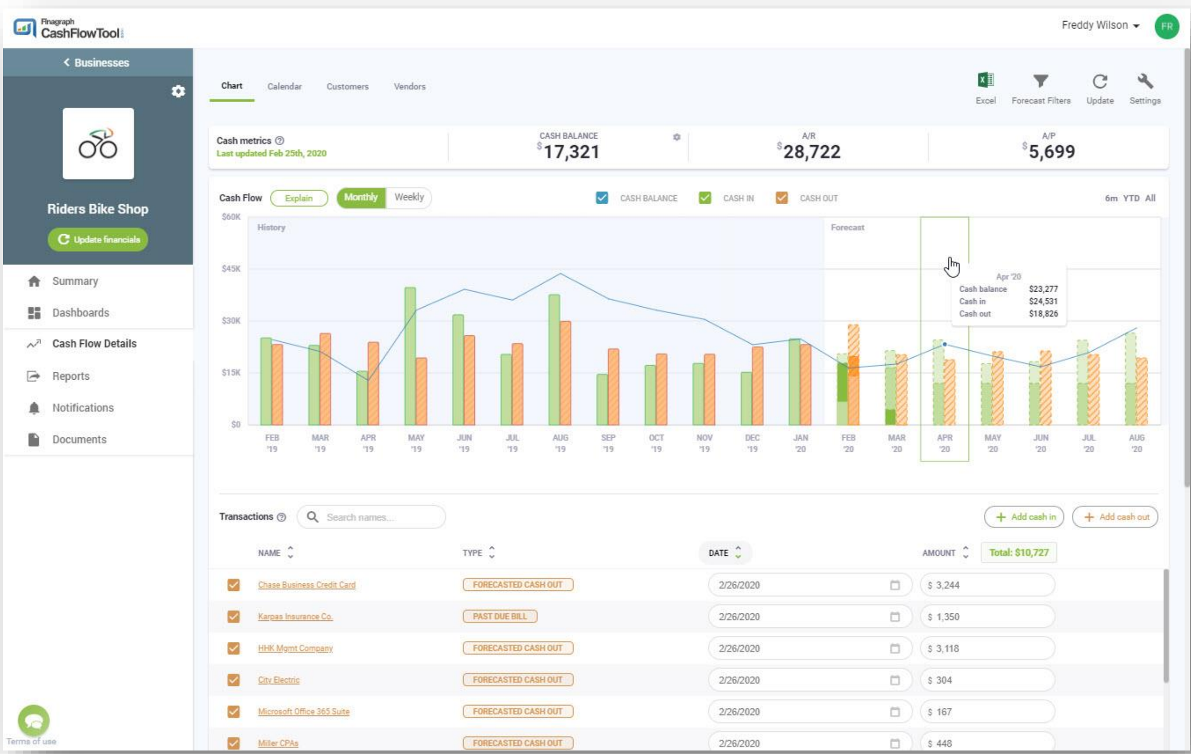
With a weekly process in place, you will be in a better position to tackle any upcoming challenges, prepare for or navigate a crisis, or take advantage of new opportunities with this new visibility into your business.

Working with Cash Flow: Then and Now

In the past, producing the information we described above required a lot of Excel spreadsheeting, estimates, checks, double-checks and revisions until not only the cows came home, but they went back out again. And before the days of spreadsheets, business owners and accountants would block off their schedule, grab a pot of coffee, sharpen their pencils, plug in the calculator and "work the numbers" until they arrived at an answer which was often little more than a semi-educated guess.

In today's world, we are fortunate to have access to technology, like [CashFlowTool](), that integrates with accounting software (like QuickBooks Online and Desktop) to produce forecasts and reports in seconds. Suddenly, we are mapping out viable options by using actual data, not guesses. Now we are empowered to make daily decisions with ease and can be confident in our critical, future business decisions.

By leveraging technology like, CashFlowTool, any business can begin monitoring and forecasting cash flow on an ongoing basis, so it is not a 'crisis time only' activity.



Getting Started

If you or your business are already in crisis-mode, a lecture that "you should be doing this already" is not helpful. However, most businesses (and people in general) need to be clobbered over the head in order to change a process or form a new habit.

That said, here are four common reasons why people START focusing on cash flow and implementing a process to monitor and forecast.

1. I want to get my company out of a financial hole (i.e., pay off debt, reach positive cash flow)
OR
Reach a specific goal (i.e. $X in the bank, $Y distributions to owners)

2. I want to manage short-term cash flow (1-3 months) better to ensure my company can cover expenses week over week (or month over month).

3. I want to be able to plan out business decisions (like a large purchase or new hire) to make sure I am not putting the company in a bad place.

4. There are significant changes coming to my business in the future and I want to plan out different scenarios to determine the best path.

In this next section, we will show you how you can get started today, whether you fit into one of the categories above, are currently in crisis-mode or are coasting along in business-as-usual.

Gather the Relevant Information

First, make sure that your accounting software (like QuickBooks) is up-to-date so you have the most accurate information possible.

Start by gathering the following information for the last 4 weeks so we can review our recent cash flow activity (you can get this from your Bank Register in QuickBooks):

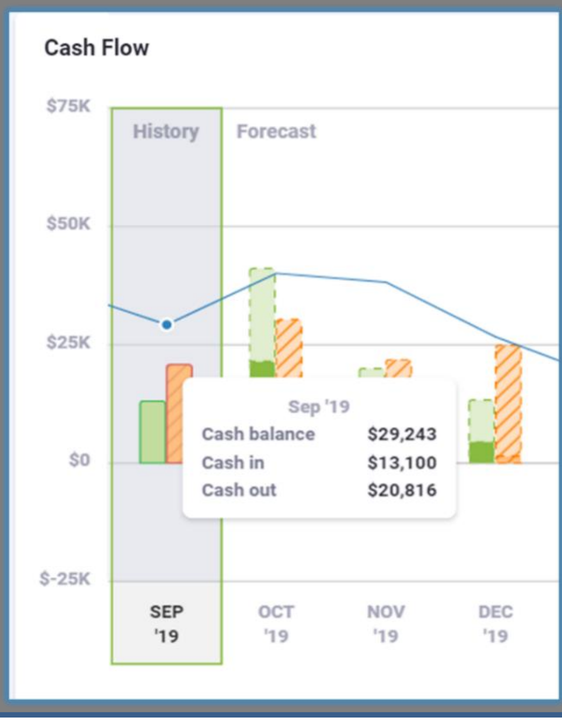
- Starting cash balance 4 weeks ago
- Cash inflows for last 4 weeks (by customer or major category)
- Cash outflows for last 4 weeks (by vendor of major category)
- Starting cash balance today

With this info at hand, you can populate this into an excel template (like the one you can find [here]) or eliminate the manual data collection altogether and use CashFlowTool to populate all of the above at a click of the button by connecting to QuickBooks Online or QuickBooks Desktop.

Jetstream Administration Inc. tip

Everyone likes to read graphs but no one likes to create them.

We use CashFlowTool to also provide visualizations of the data so our clients are not just looking at a wall of numbers.



Create a Baseline Forecast

Think of your baseline as your most-likely-to-happen scenario. It's your starting point. To create your baseline forecast, you will want to enter the following into your template in the appropriate time period:

- Outstanding invoices (accounts receivable) as of today
- Unpaid bills (accounts payable) as of today
- All upcoming debt payments
- All recurring cash inflows and outflows, examples may include:
    - Sales/revenue from recurring customers or sources (hopefully!)
    - Payroll + other employee costs
    - Cost of goods sold
    - Software costs
    - Rent + utilities
    - Insurance

Similar to pulling the historical data from QuickBooks, CashFlowTool will also gather this information for you and produce an initial forecast that you can then tweak – saving you an enormous amount of time and effort and producing visualizations of the information.

Jetstream Administration Inc. **tip**

It used to take hours to compile all the data needed to create a manual cash flow report.

Now, we link CashFlowTool to the QuickBooks Online account, customize a few settings then Click "Update Financials"

BOOM!!
There is my baseline forecast.

‘The Rule of Three’ Scenarios

Whether you are currently in crisis or running in business-as-usual, a common problem that many businesses have is the inability to play out different scenarios and observe the impact they will have on their cash position.

For businesses in crisis, this could mean determining how long you can last if your revenue drops 50%, or what happens if you do not receive a loan you just applied for. For businesses outside of a crisis, it could be hiring a new employee, moving into a bigger space or to buying a new piece of equipment.

These decisions become even more stressful when you lack the ability to observe their potential impact. And making the wrong decision, or even the right decision at the wrong time, can be detrimental for the business.

This is where the rule of three comes into play. We already built our baseline forecast, which is the most-likely-to-happen scenario. Now it’s time to develop at least two more scenarios: a best case and a worst case.

Best Case

You can model out an increase in sales, receiving the loan you just applied for, or winning that large contract you bid on. It’s important to understand what your cash position will look like if things go right!

Worst Case

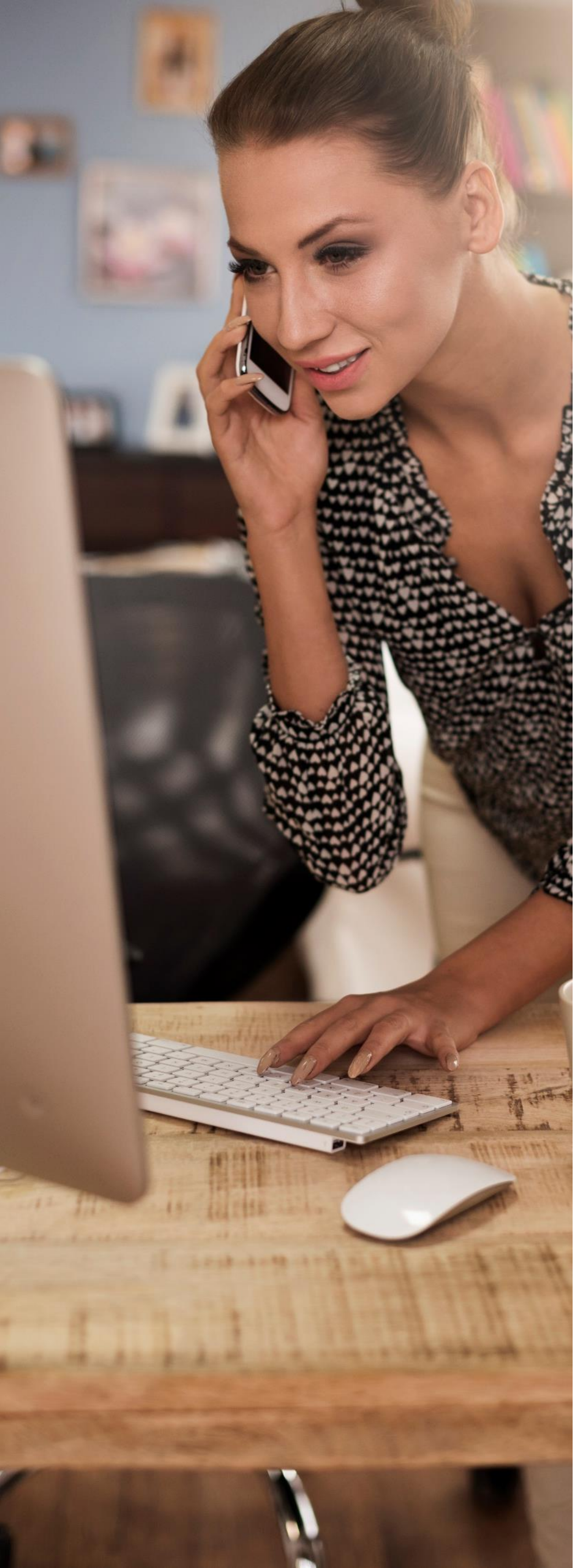
You can model out a significant decrease in sales, increases in certain expenses or even a loss of a key customer. Being able to see the outcome, before it happens, is the first step to developing a plan of attack.

Jetstream Administration Inc. **tip**

The most important step is to START and schedule weekly reviews and updates. The feeling of control is immediate, and you will feel more engaged in updating it as new information becomes available (for example, landing a new contract and inputting the expected cash flow or adjusting an ongoing expense to reflect a price increase).

You may even need to develop a best case and worst case for each significant decision that needs to be made. When there are multiple decisions and more variables at play, it is critical to have a flexible system in place that can handle turning specific items on and off.

This is where using technology like CashFlowTool can do the heavy lifting for you, so you can spend more time focused on your business and less time crunching numbers in a spreadsheet.



Additional Areas of Focus during a Crisis

Completing the preceding steps and putting a process in place to review on an ongoing (hopefully weekly!) basis will be invaluable to your business moving forward. If you are currently in crisis mode, there are some additional steps to take. Below are four areas to focus on right away once you create your baseline forecast and have your framework in place.

1. **Evaluate your Expenses**
2. **Review your future income**
3. **Run Scenarios**
4. **Calculate cash burn rate**

Evaluate your Expenses

The initial reaction for many when a drop in income occurs, or is expected to occur, is to cut the largest expenses to prevent from bleeding cash. Rather than jump to the largest expenses, it is best to approach this in a systematic way to ensure you are not doing more harm than good.

Since you have a baseline forecast set up and an understanding of your historical expenses, one strategy you can utilize is to divide your expenses into "musts" and "wants". The "must" expenses are those that you must have to keep your business running (things like payroll, rent + utilities, critical suppliers). The "wants" are those that are nice to have (in the good times), but not essential (things like public relations, charitable donations, training, holiday parties, etc.). Make sure that eliminating "wants" will not have a direct negative effect on you generating revenue.

Once you have your expenses broken out into "musts" and "wants", prioritize each list separately. It would be helpful to have some quantitative information for these expenses, such as historical spend in the last 90 days and forecasted spend for the next 90 days.

Quickly assess your options for the significant category of expenses. These may include:

- Renegotiate of Vendor Terms: Here you can go to the vendor and negotiate a lower price or adjust the number of days you must pay future invoices.

- Request late payments: You can discuss with the vendor if you can simply make your payment 60-120 days late but keep using the service. Many vendors are willing to negotiate to keep your business.

- Put on hold: Either pause the expense or cut it altogether.

This information will be used further after we review our future income.

Review your Future Income

Being able to forecast your future income with some level of certainty is essential to running your business. It determines what level of expenses you can support, whether you can make payroll or rent and helps you decide how you invest in the future of your business. This process is directly related to your expense evaluation and should be performed together. How to review your future income depends on the type of crisis you are in.

If this is a company specific crisis, like losing your top customer that accounts for the majority of your revenue, the approach should be one that is focused on opportunity. Where can you look to fill that gap? Are there new ways to deliver your product or service? Are there new distribution partnerships to explore or other large customers in your pipeline that you can focus on?

If this is a crisis affecting your industry or it is more systemic, like the COVID-19 pandemic, the first step is to evaluate whether your customers themselves are also affected. Will the crisis draw your customers away or affect their ability to pay for your products or services?

If your customers are also affected, you may want to create a list of your top existing customers and put them into a high, medium or low risk category. Each level of risk aligned to the probability that they will not be able to pay you and/or will cancel your services moving forward. Similar to the evaluating your expenses step, you can use this list to assess your options. These may include:

- Offering a temporary Discount: Call your top customers and find out where they are at. Can you keep them at full price, or can you offer them a temporary discount to keep them?

- Accept late payment(s): Offer to let them pay you later. This could be a good option because you keep them as a customer.

- Let them go: This can be a good option if the customer does not materially impact your overall revenue. You want to spend all your time keeping your top customers and if you have time, address the remaining ones.

The answers to these initial questions will help you transition to the next step.

Run Scenarios

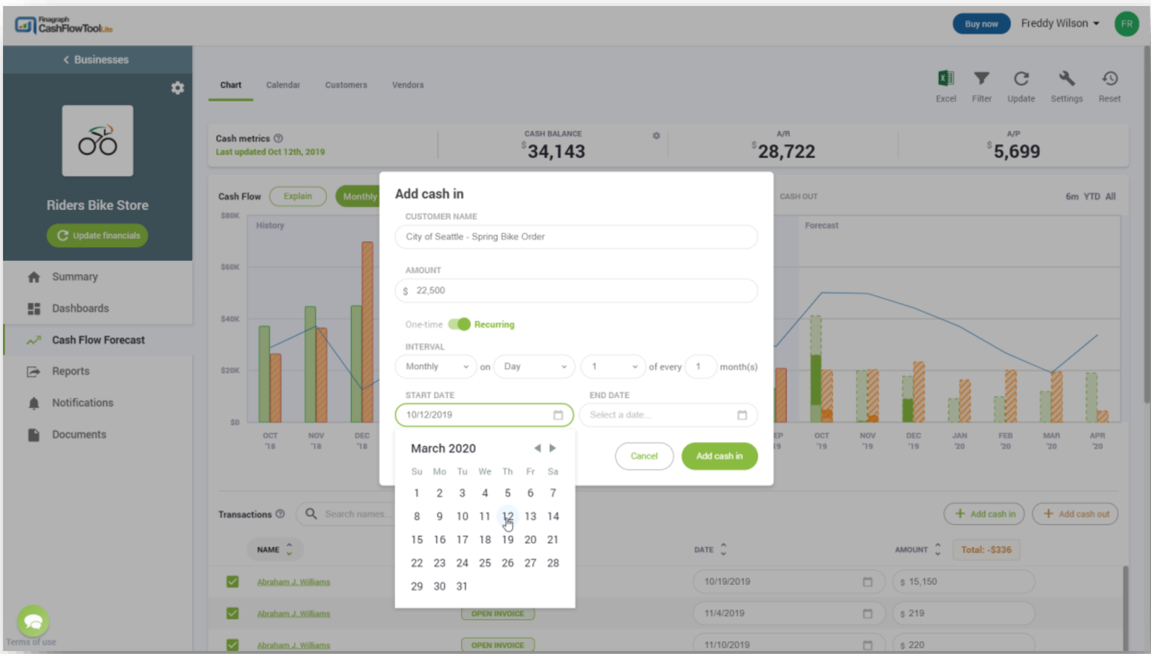
With the information you now have from Evaluating your expenses and reviewing your future income, you can now run different scenarios to determine how this affects your cash flow and overall cash position.

For example:

- What happens if I lose all of the 'High Risk' customers?
- What happens if we cut all (or 50%) of the "want" expenses?
- What happens if we lose 50% of the 'High Risk' and 'Medium Risk' customers but I cut all the "want" expenses?

To do this most effectively, it is critical to have a good Excel model in place or use technology like CashFlowTool. You want to spend more time evaluating options and less time doing the calculations.

Being able to run these scenarios on the fly will help you evaluate which options you should spend time planning for and executing with your team.



Calculate and forecast your cash burn rate

An analysis you will also want to be able to run and keep an eye on is your cash burn rate. A burn rate measures how fast a company spends its available cash and answers the question: "How long can we survive with the level of cash we have today?".

Understanding the components of your burn rate can plan also help you plan out different options manage it (i.e., make your cash last longer).

Cash burn rates are typically measured monthly but can be measured weekly or daily if necessary. You can also calculate them based on past (historical) data or based on the forecasted revenue and expense from the previous steps. There are two types of cash burn rates:

- Gross cash burn rate – Total amount of cash you are spending per month. To calculate a monthly figure, add the cash outflows for each month during a period (i.e., 3 months) and divide by the number of months.

- Net cash burn rate – The difference between cash in and cash out per month. To calculate a monthly figure, add the net cash inflow/outflows for each month for a period (i.e., 3 months) and divide by the number of months. If the number is positive, you're not burning cash, you're building cash!

Once you calculate each burn rate, divide your current cash balance by that rate. The result is the number of months you can survive at the burn rate (i.e., under the assumptions that went into the numbers). You can them make some powerful statements, such as:

> Based on our expected expenses for the next three months, if we continue spending at rate, the cash we have today will last ____ days/months.

Calculating these rates will help you learn more about the performance of your company in the past as well as plan your cash burn for the future. When you are experience a crisis in your business, your burn rate moving forward could be the difference between your business' survival and salary cuts, layoffs or business closure.

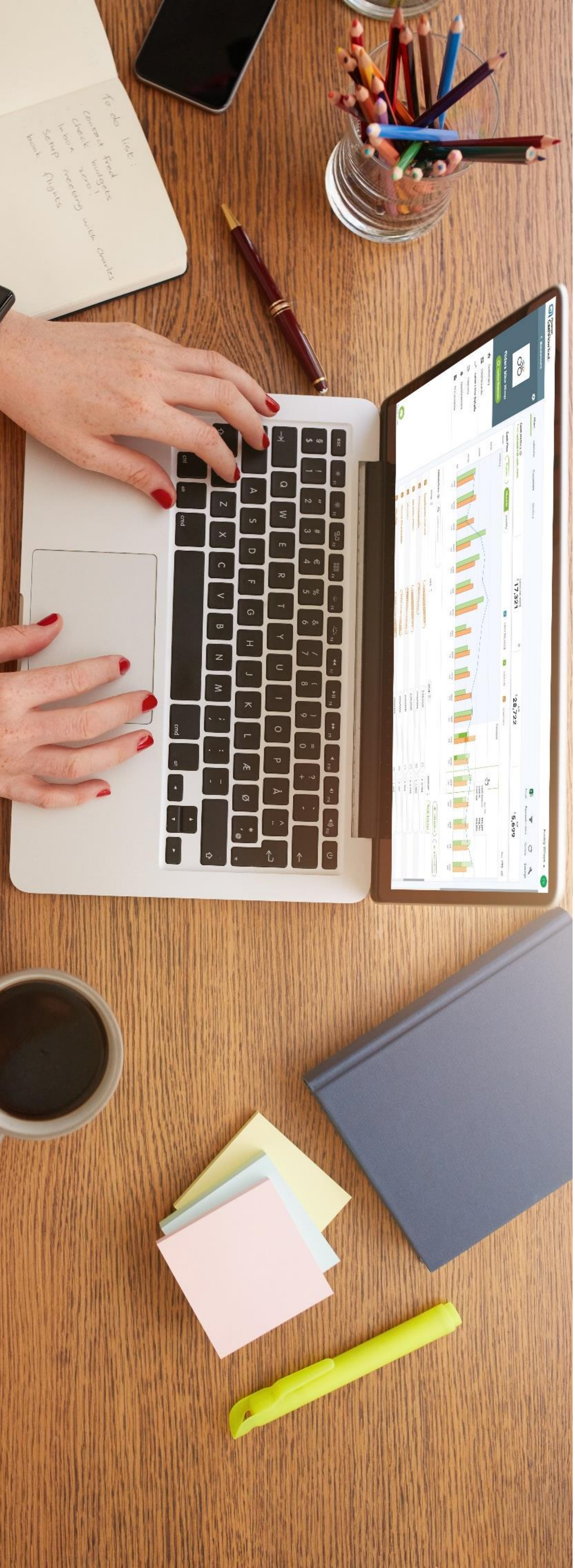
CashFlowTool in Action
with Jetstream's Clients

Prior to using CashFlowTool, it may have taken days or weeks to create the scenarios described above. Plus, I was never really confident in the guidance they provided. Mainly because they were monstrous to create and a nightmare to maintain. Besides the incredible loss of time and loss of potential opportunities during the time spent in creating them, it was never easy to keep them updated in real time to instill confidence in the days and weeks that followed.

During this crisis, CashFlowTool has really had a chance to shine. I am able to run "What if" scenarios not only on the revenue side (what if we lose this customer or this group of customers?) but also on the expense side (what happens if we reduce / eliminate this expense or these expenses?). Those two scenarios are enormously helpful as they put facts in front of the decision-makers and reduce the "wondering" and worry over making less than ideal or optimal decisions.

What's even better is I'm able to combine the two! With CashFlowTool, we can adjust both sides of the equation to measure and forecast the impact. Small tweaks to revenue and making similar adjustments to the expense side can create a whole new set of results that can help a business owner make better decisions and consider the short term as well as the mid and longer-term impacts.

At Jetstream, we have clients who are surviving (and even thriving) during the COVID-19 crisis and those who are hard hit but will be able to manage themselves through the pandemic. One of the major drivers between the extremes is how they approached their cash control systems before the crisis hit.



Take The First Step

A big part of running a business is managing and controlling cash flow. Without cash, there is no business. Of course, the hardest part of any new habit is taking the first step. And it's easy. Simply open your calendar now and set up a recurring meeting. Schedule the weekly commitment to your calendar now (yes, I said it twice!).

It's time to say good-bye to the reactive or stressed-based decisions you may have been forced to make in the past.

Thirty minutes a week is enough to get comfortable with the story of your cash flow and to begin taking steps towards control. You will discover that this simple exercise will generate questions that you will not only need to get answered but will want to get answered (Is that customer going to pay or, Why am I still paying for that!!). From there, you can create your own baseline and be in a position to use your living cash flow plan to make decisions about the future of your business.

Jennifer Bauldic
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Jennifer Bauldic provides personalized cash flow coaching and technology-based bookkeeping for small businesses. She focuses on building strong habits which make 'giving your business a lift' feel more like fun and less like work. Her mission is to be a strong ally in putting business owners in control of their cash. In addition, Jennifer is actively involved in assisting accounting professionals as they navigate cloud technology and the paperless systems that have become vital tools in the success of today's firms. Jennifer is a Certified CashFlowTool Pro, Certified Fix This Next Advisor, Certified Profit First Professional, Certified Professional Bookkeeper, a member of the Intuit Trainer Writer Network, and was named the 2019 Top International ProAdvisor: Americas by Insightful Accountant.

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Finagraph CashFlowTool

CashFlowTool is the #1 rated cash flow app on the QB Marketplace which automatically syncs with QuickBooks (Online or Desktop) and instantly builds a 6-month future cash flow forecast. You can see all your future inflows and outflows, see your cash flow by day, week and month and perform what-if scenarios (hiring, new equipment, etc.) to quickly see the impact on future cash flow. CashFlowTool also has a built-in anomaly detector to watch over your business, analyze your cash details and alert you to the things that actually matter (unexpected bills, cash shortages, etc.). KPI dashboards show your top business metrics and of course you can share and export your forecast into Excel. Cash flow has never been easier to see and manage.

#1 rated cash flow app in the QuickBooks Marketplace

Learn more at CashFlowTool.com