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Business Oxygen

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Most business owners are paralyzed right now. They are struggling and lack clarity on where to turn for support or how to make sure they increase the odds of survival. Below are thirteen priorities that must be managed as you navigate these choppy waters. Share this advice with everyone in your network.

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By Keith J. Cunningham

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Oxygen is something we rarely think about until it is cut off and then it becomes our highest priority. The reason is obvious: Without oxygen, life rapidly becomes increasingly uncomfortable and then you die....quickly.

In business, oxygen is cash and cash flow. When your cash becomes low or cash flow lurches into negative territory, your survival is dictated by how quickly and effectively you address this problem. Delaying or minimizing the fix or hoping the cash supply lines are quickly restored and things get back to "normal" is a prescription for a painful death.

In light of the current economic turmoil, you probably have several competing agendas and priorities. While all these issues must be addressed, your highest priority is having a granular, detailed, specific,

up-to-date understanding of your oxygen, oxygen supply, oxygen production capability and oxygen storage tanks.

You must be able to accurately estimate the changes you must make to ensure survival. The problem is correctly estimating the length of time.

The mistake most people make when dealing with a crisis is to be overly optimistic about the time period they need to be in survival mode. The default assumption we make is the problem will be rectified sooner rather than later and therefore, the adjustments and cuts that get made are not deep enough, particularly with our personal spending. The unhappy result is cash that could have been preserved to extend our life if the problem goes on longer than estimated, gets consumed... and once cash has been spent, it is gone... forever!

It is critical that you have extreme clarity and specificity about your financial status, cash reserves and anticipated short term cash forecast. (Glossy, foggy, fluffy, gut feel generalizations are the enemy of clarity!)

I strongly recommend you immediately start using a Rolling 13-Week Cash Flow Forecast to help you get and maintain clarity about your true cash picture. This one tool is likely to be the difference that makes the difference for weathering this storm and successfully emerging on the other side. (See the detailed information and formatting on that at the conclusion of this article.)

Below are the thirteen most critical key performance indicators (KPIs) and critical drivers required for optics on running your business during a crisis. You must know and be able to report on:

1. Your current cash balances.
2. The amount of your A/R that can be collected quickly or is overdue. What needs to happen to keep your A/R current going forward.
3. Projected cash flow from operations assuming the current environment remains "as is" for 3-4 months. (Sources of revenue and anticipated expenses to service that revenue... Detailed specificity is mandatory!)
4. Actual vs. Projected cash burn rate. (This is your total expenses on a monthly basis.)
5. Your variable vs. fixed expenses monthly.
6. Payments (loan, landlord, vendors) that can be extended or delayed.
7. The source and amount of additional financing available. (This is either from your line of credit at the bank, additional bank (institutional financing), your personal funds available to be injected if necessary, or friends and family, etc.)
8. Any stray or unused assets that can be liquidated for cash.
9. The amount of your personal burn rate and the amount that burn rate can be curtailed to preserve cash for the business.
10. The excess baggage and fat that can be curtailed/delayed/ furloughed/whacked in your expenses. (Frequently some muscle will need to be considered for reduction... the last thing to get cut is the bone. You can't rebuild after the crisis if there is no bone, so be careful here. On the other hand, it does no good to have strong bones but be dead.)
11. Expansion, growth or Cap X plans/expenditures that can be delayed.
12. A detailed, specific summary of all the adjustments you either have or will make and how these changes result in your survival over the next 3-4 months. If you intend to make cuts and reductions in phases, be clear about the benchmarks and triggers for each phase. (Do the math and be clear about your assumptions.)
13. Your communication plan with your team/employees about your plan and how it impacts them. I can tell you from personal experience that if the plan is communicated effectively, it can solidify your culture... but if it is done poorly, it will destroy your culture... Be thoughtful about this. Your employees are not ignorant about what is going on and you pretending everything is okay erodes your effectiveness and credibility as a leader.

If you can't devise a plan that sees you through the next 3-4 months, then you will need to revisit your plan and make further adjustments or get more creative. If that still doesn't work, then you must source and begin meeting with a bankruptcy lawyer (Chapter 11) so you can understand your options.

Depending on your financial condition when we entered this crisis and the impact it is having on your business, making sure you have a full tool belt is mandatory. Chapter 11 Bankruptcy is a business tool. It is a tool that can be very effective in the right circumstances, but it is complex and has to be navigated and communicated effectively... but if bankruptcy is the only tool available to ensure survival, I would use it.

This crisis will pass. The problem all of us have is estimating how long it will last and then developing the plan accordingly. This is one of your primary jobs as the CEO and leader of your business. Once you have made the tough choices, having the courage to execute your plan is mandatory. One of your jobs as a leader is to make the difficult choices and have the candid conversations.

Here it is on a Bumper Sticker: Your number one priority is to ensure survival... and that requires cash!

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PS... Please remember to keep reading the below for info on the 13-Week Rolling Cash Forecast.

Rolling 13-Week Cash Forecast

A Rolling 13-Week Cash Flow Forecast consists of four parts:

1. A beginning cash balance (which will always be the ending cash balance from the week immediately prior).
2. Projected Sources and Receipts of cash (which would include cash sales; collections on receivables; the cash proceeds on the sale of property, plant, or equipment; money raised from banks or lenders, etc.). In essence, this would include any cash that would be deposited into your bank account.
3. Projected Uses, Payments, and Expenditures of cash (which would include all bills paid, purchases of inventory, deposits paid, loans repaid, or accounts payable paid, etc.). In essence, this would include any cash that would be spent or disbursed out of your bank account.
4. An ending cash balance (which is simply the sum of 1-3 above).

Your spreadsheet will have 14 columns, one for each of the next 13 weeks and one to use "after-the-fact" to compare your actual results in week one with the *projected* results for week one. This weekly after-the-fact comparison is critical because it allows you to accurately modify and update your projections for the next week based on actual results from the week that just ended.

After the basic template is set up, here is the process we use:

1. Make a thorough list of all the sources and uses of cash. Lots of detail leads to better optics or said another way: **Generalizations kill clarity**. So, for example, do not show just one line for "accounts receivable." Instead, make a list of the customers who owe you money and estimate the amount you think they will pay in the appropriate week's column. You usually have much greater control over the timing of when you will pay your bills than when you will collect your money, but some payments, like payroll, rent, and note payments are not only recurring, but mandatory. Other payments might have latitude on the timing; you can make use of this flexibility to craft a cash flow forecast based on your anticipated cash sources.
2. Obviously, the farther out you forecast, the less precise your projections will be. The first couple of weeks will be much more accurate than weeks twelve or thirteen, but that doesn't mean you shouldn't be estimating timing and amounts. Do not let perfect get in the way of possible on this exercise. A good guess is better than ignorance.
3. After the thirteen weeks have been estimated and recorded into your forecast, the next update will be at the conclusion of week one. Your spreadsheet will have a column for week one's actual results and you will record week one's actual sources and uses of cash in this column. You might have estimated you would collect \$1,600 from Mr. Gotcha, but only collected \$1,000. Record \$1,000 in the actual column. You might not have estimated paying any money to Ms. Ransom, but she called and demanded payment, so you coughed up \$2,300. Record \$2,300 in the actual column. Based on your actual results in week one, you will do five things:
 1. Update your ending cash balance for the end of week one with the actual cash balance (which is about to be the new week one).
 2. Update and refine all of the sources and uses line items for the next twelve weeks based on your actual historical results from week one.
 3. Roll all your weeks forward one week. The old week two will become the new week one. The old week three will become the new week two and so forth.
 4. Add a new column for the new thirteenth week and fill in (as best you can) all the anticipated sources and uses for that week.
 5. Update your projected weekly ending cash balances based on (1), (2), and (3) above.

Some business owners do better using a two-week cycle rather than one week. This is good, too. Candidly, using a thirty-day cycle is better than doing zero cash-flow forecasting.

Keep in mind this is a living analysis, and therefore will always be changing. Stuff will happen that you didn't anticipate (both timing and amounts), which will necessitate updates and modifications to your plan. If you see a wall looming on the horizon that has no easy solution, the Rolling 13-Week Cash Flow Forecast will serve as an early warning system so you can make adjustments. For example, if you notice cash getting thin (or negative) in week five, you might need to think about calling Mr. Gotcha in week four or letting Ms. Ransom know she will not get paid until week six. In other words, you should shift around the timing of your cash receipts or uses based on the results you anticipate occurring and take action accordingly. It does no good to know you will run out of cash in week ten and then do nothing about it in weeks one through nine. Use the Rolling 13-Week Cash Forecast not only as a planning tool, but also as an action plan to ensure the oxygen keeps flowing into your business.

Big-picture cash shortfalls can be dealt with in a limited number of ways:

1. Collect more cash revenue or deposits (generates operating cash).
2. Accelerate the timing of accounts receivable collections, which reduces receivable days (generates operating cash).
3. Reduce expenses (increases operating cash).
4. Delay payments on accounts payable, which increases payable days (increases operating cash).
5. Spend less on inventory purchases (increases operating cash).
6. Delay buying, or purchase fewer or cheaper property, plant, and equipment assets (reduces investing cash needs).
7. Sell some property plant and equipment (generates investing cash).
8. Borrow money from the bank (generates financing cash).
9. Raise money from investors (generates financing cash).

Keep in mind that none of these nine possible solutions will be implemented unless you have the optics to know there is a problem. The following Excel chart is a simple example of the Rolling 13-Week Cash Flow Forecast.

KEYS TO THE VAULT
 Today's Date is: _____
 Business Name: Toolies

Rolling Weekly Cash Flow Forecast

| Cash Flow Forecast | Actual Cash Flow Results | Forecast for Time Period | Forecast for Time Period | Forecast for Time Period | Forecast for Time Period | Forecast for Time Period |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Current Week-Actual | 8/10/2014 to 8/16/2014 | 8/17/2014 to 8/23/2014 | 8/24/2014 to 8/30/2014 | 8/31/2014 to 9/6/2014 | 9/7/2014 to 9/13/2014 |
| 13 Week Forecast | | 1 | 2 | 3 | 4 | 5 |
| Beginning Cash | 110,501 | 25,045 | 3,045 | (955) | (1,955) | (8,455) |
| Cash Sources and Receipts | | | | | | |
| Enter category names below. | | | | | | |
| Product Sales | 150,000 | 150,000 | 150,000 | 175,000 | 175,000 | 175,000 |
| Installation | 90,000 | 90,000 | 90,000 | 95,000 | 90,000 | 90,000 |
| Service | 45,000 | 45,000 | 45,000 | 90,000 | 45,000 | 45,000 |
| Receivables | | 3,500 | 40,000 | 15,000 | 10,000 | 9,000 |
| ABC | 1,500 | 2,000 | 0 | 0 | 0 | 6,000 |
| Mr Gotcha | 2,000 | 1,500 | 0 | 0 | 2,500 | 0 |
| BeMore Construction | 0 | 0 | 5,000 | 0 | 2,500 | 0 |
| Total Cash Available | 288,500 | 292,000 | 330,000 | 375,000 | 325,000 | 325,000 |
| Cash Uses, Payments or Expenditures | | | | | | |
| Enter category names below. | | | | | | |
| Advertising | 5,500 | 5,500 | 5,500 | 10,000 | 5,500 | 5,500 |
| Services | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Parking/Building/Lease | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Inventory | 80,000 | 75,000 | 80,000 | 90,000 | 90,000 | 100,000 |
| Vehicle | 5,000 | 5,000 | 5,000 | 7,500 | 7,500 | 7,500 |
| Equipment | 5,000 | 5,000 | 5,000 | 5,000 | 25,000 | 4,000 |
| Payroll | 150,000 | 125,000 | 125,000 | 150,000 | 125,000 | 150,000 |
| Property Tax | 0 | 0 | 0 | 15,000 | 0 | 0 |
| Supplies | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 |
| Utilities | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 |
| Below the Line Items | 40,000 | 0 | 15,000 | 40,000 | 20,000 | 40,000 |
| Total Cash Usage | 384,000 | 314,000 | 334,000 | 376,000 | 331,500 | 405,500 |
| Ending Cash | 15,001 | 3,045 | (955) | (1,955) | (8,455) | (88,955) |

[Download the 13-week template here](#)

Excel also has a 12-month cash flow template. To download that template:

- Open Excel
- Click on New
- Then search online for the template. The name of the template is called **"Small Business Cash Flow Projection."**

Additional resources to support you are Keith's book on financial optics [The Ultimate Blueprint for an Insanely Successful Business](#) and [The Road Less Stupid](#)