

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 2: Cash Flow Analysis—Short Term

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Description: *In this episode we interview Dave Biedenbach, Small Business Development Center in Ames, Iowa, and Duane Johnson of the Iowa State University Extension and Outreach Farm, Food and Enterprise Development Program, on their thoughts and recommendations on quickly developing a cash flow analysis for your business.*

Transcript:

[music]

Steve Adams, host 00:04

Hello, and welcome to the COVID-19 business development response podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach programs, including Community and Economic Development, Farm, Food and Enterprise Development and the Iowa Small Business Development Center. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 00:44

In this podcast, we will be discussing the importance of cash flow analysis and projection, including why it is so important during the COVID-19 crisis. Today, our guests are Dave Biedenbach, regional director with the Iowa SBDC, and Duane Johnson, program coordinator three with Iowa State University Extension and Outreach and part of the Farm, Food and Enterprise Development team. I just want to say thank you both for being here today. Dave, let's start with you. Can you briefly describe cash flow analysis, and why it is such an important exercise for a small business to go through, especially in this current environment?

Dave Biedenbach, SBDC 01:26

So cash flow analysis or projections are necessary just to help a business plan and make sound decisions. We typically, when we look at startups, that's obviously critical to determine whether or not the business is even going to be financially feasible. And, you know, on an ongoing basis, a business should be continuing looking at their cash flow position. During these times right now, there's a lot of unknowns. And in order to really plan through these unknowns is just to get numbers down on paper.

Dave Biedenbach, SBDC 01:58

Again, just to help through that decision making process, because there's some hard decisions that businesses need to be making during this time, both in the short and long term. And then also, you know, going along with proven assumptions that you're going to have to come up with. So, again, just a management tool that should be in front of owners' and managers' faces all the time just to help them plan through both day to day operations as well as longer term planning.

Steve Adams, host 02:27



That was kind of going to be a follow up, Dave—how often do you think a small business owner ought to visit or revisit their cash flow situation?

Dave Biedenbach, SBDC 02:36

I'm kind of biased on this because my backgrounds in accounting and finance but at least should be on a monthly basis. It depends on the industry that you're in, but pretty much with any business, there's a lot of stuff that happens that changes. A lot of assumptions that were made when the projections are initially put together, most likely need to be changed, just because of the environment that's going on. Again, especially what's going on on right now, there are so many unknowns and a lot of changes that are happening that, you know, during this crisis right now, people should be looking at their cash flow position on a weekly basis, in my opinion.

Steve Adams, host 03:11

And how closely you think they ought to align themselves with an accountant or somebody who's a professional on this, would you recommend that to our listeners or not?

Dave Biedenbach, SBDC 03:19

Well, it all depends on the expertise of the people that are looking at it and putting information together. So you know, if that's not, if you don't have experience putting these together, and that's not really your forte, I would definitely work with a person or professional that, you know, has that background. Because again, this is something that an owner and a manager should be in tune with, to be an effective manager and owner. Working with a professional, that's just basically utilizing them as a teacher to help you through that process. Just so you know, you're basically just building a knowledge base on that.

Steve Adams, host 03:55

So Dave, what are some of the key metrics used when conducting cash flow projection and where can a person locate some of them within their own financial statements?

Dave Biedenbach, SBDC 04:05

First thing you need to do is focus on what assumptions you're going to make and how much sales or revenue you're going to be generating, because that's what's going to driving pretty much the rest of your business, especially on the cost structure. So, you know, what I would suggest is that a person starts with coming up with the assumptions on the revenues, breaking that down as finite as possible. You know, if you're selling a widget, you know, taking that ... say you're selling 10 different types of widgets, I would take that down by product line, project that out.

Dave Biedenbach, SBDC 04:37

Again, the revenue side are kind of what's going to be driving your costs. On the cost side, there's both fixed and variable cost. So you know, those fixed costs are what some people call just overhead, where there's not really a correlation between business activity, how those costs adjust. So a good example of that would be rent, or property taxes. And then you have all variable costs, again, they correlate more with the business activity. So when sales go up, these variable costs most likely will go up in correlation.

Dave Biedenbach, SBDC 05:09

So you know, those are found primarily on the P and L. There's also other cash factors like debt service and ownership draws and dividends that are paid out, the purchase of fixed assets, all that kind of stuff. So all that stuff can be found on the balance sheet. And again, if people aren't really familiar with how costs react to business activity, you know, just work with the professional and they can help you through that.

Steve Adams, host 05:34

You know, those P and L's, or profit and loss statements, again, and balance sheets are really valuable to take a look at. But let's get around to projections. Projections I would imagine in this environment in particular can be pretty tricky. We're basing that of course on a lot of assumptions and these are very uncertain times, as we all know. So if you were to give somebody some advice, Dave, to a small business owner for example, when they need to make these difficult to sell and want to get their projections as accurate as possible, what should they do there?

Dave Biedenbach, SBDC 06:04

In my opinion, what they should be doing is doing different scenarios. Worst case, best case, doing decisions behind that, or they're using that information to come up with different decisions based on that. So all the things that are going on right now, there's a lot of unknowns. You know, coming up with sound assumptions to come up with accurate projections is going to be difficult. So, in my opinion, you probably should be putting together multiple scenarios based on what's happened. And again, those should be reviewed and adjusted on an ongoing basis as information comes in or the environment changes.

Steve Adams, host 06:37

I guess every small business owner today wishes they had their own crystal ball, but looking down the road that's probably as difficult as they're ever going to have to see in their business today. So again, those projections, like with my small business clients, I try to tell them to take their expenses high and their revenue low. Again, as you put it, creating that worst case scenario or several models that would show positive and negative and then maybe a breakeven analysis. And would you suggest that people try to look at a breakeven analysis for their businesses right now?

Dave Biedenbach, SBDC 07:13

Absolutely. Yeah. I mean, absolutely, that's, again, that's a good indicator of when you know, business activity falls below a breakeven point, you know, you're gonna have to make some serious adjustments to your business, because when you get below that breakeven, you're going to start bleeding cash, and obviously, nobody really wants that.

Steve Adams, host 07:31

Understood. Well, Duane, in addition to what David said, what do you feel is critical to accurate cash flow forecasting?

Duane Johnson 07:39

I think probably to be accurate, the main thing is to make sure that everything is complete. If a business owner sits down and begins to do cash flow analysis for the first time and they're looking strictly looking forward, it's easy to miss some things that maybe should be included in your cash flow. So I think it's important to look back at the previous two or three months, particularly for expenses, to remind you of all the bills that occur on a monthly basis.

Duane Johnson 08:04

Whether that's routine things such as an insurance, payment, utilities, rent, those sorts of things, and maybe then some other things that just pop up from time to time as well, to get all the expenses accurate. And then the next thing is to, you know, forecast revenue. As Dave said, probably for a lot of these businesses right now, revenue is the most difficult thing to forecast. So it makes sense to have at least two, maybe even three different scenarios they're looking at. Again, as Dave said, best case, worst case and maybe something in the middle. And then develop a survival strategy based on each of those scenarios as they, as they look at it, we can look more forward thinking.

Steve Adams, host 08:42

Yeah, it used to be a rule of thumb, Duane, that you ought to keep some liquidity or cash on hand that would cover expenses up to six months. Is that even realistic in today's environment, do you think?

Duane Johnson 08:52

I'm sure for a lot of businesses, it's not, and in fact, for a lot of small businesses, that's probably sort of a pipe dream. Like many businesses, I know when I was in business for myself, we had to tap our business on a monthly basis for living expenses. I don't know that I ever got to the point where I had six months of living expenses in the bank. Like a lot of people that are on paychecks, it's more of a month to month thing and while putting those sorts of reserves away is great if you can get there, it's always difficult and certainly even more difficult right now.

Steve Adams, host 09:28

Understood. Duane, what are so tools to help small business owners with this difficult but very critical task? Could you tell us a little bit about how it works?

Duane Johnson 09:39

Sure. There are a variety of tools to help with cash flow. There are a variety of ways to maintain a cash flow analysis. It can be as simple as honestly using a spreadsheet and looking at what is coming in and what is going out. Again, it's important to be complete and accurate. But a person can create their own cash flow on a spreadsheet or honestly even maybe a piece of paper. But there are many tools available to help with that.

Duane Johnson 10:12

We can offer assistance with setting up an Excel spreadsheet. Depending on the business, we can make it as complex or as simple as needed. We're willing and capable to help small businesses with that task. Other tools that we have available are, we have a software package called Liveplan. It's a more complete analysis where it will project profit and loss, it will run a balance sheet for people and it will also create a cash flow where we can look at a longer term cash flow analysis than what's possible on just a spreadsheet.

Duane Johnson 10:53

To go along with that, we have other business tools such as one called Bizminer, where we can help businesses take a look at performance, their financial performance versus other businesses in their industry. Thirdly, is another company called IBISWorld, which is along the same lines, we can look at some industry data and help them analyze where their business is at and help them decide where they're going.

Steve Adams, host 11:20

And Bizminer and IBISWorld, those are what allow you then to look at businesses of your same size and what some benchmarks might be, would that be correct?

Duane Johnson 11:29

Correct. within some broad parameters, businesses of roughly the same size and also we can look at narrow it geographically to the state or maybe even within a region in the state.

Steve Adams, host 11:43

Terrific. Duane, again, can you share with us an example of how conducting a cash flow analysis has really benefited one of the small businesses you work with over the years?

Duane Johnson 11:54

Sure, I'm going to go ahead and use my own business again as an example. I ran a small construction business, it was a franchise operation for about 12 years. Happened to be lucky enough to start that business just before the great recession of 2008. And thus had some some times where revenue slowed to a trickle. And when I initially started the business, I was not on a daily or weekly or a monthly basis, monitoring cash flow.

Duane Johnson 12:27

But as things got tight, I began to see the need to do that. And I originally started it for the purposes of at times figuring out what bill I could pay today, as opposed to what ones needed to be put off. How I was going to create enough revenue, enough cash to use it again, as I said, for living expenses for that particular month. There were times when the cash flow analysis showed that there simply was not cash available, perhaps to make a big vendor payment, point in time.

Duane Johnson 13:00

As we're advising some of the small businesses to do today, you may need to look at what payments can be delayed. Can you call a vendor? They know the circumstances we're all dealing with. If you're in a cash crunch today, can you find vendors or suppliers who are willing to delay the payment or delay the receipt of the payment for a short period of time while you work on that cash flow? And I found myself in that same position and was able to ultimately weather the storm, keep the business afloat during that period of time and come out the other side and stay in business another 8-10 years after the recession.

Steve Adams, host 13:35

Well, it sounds like you started that business just at the right time, there, Duane.

Duane Johnson 13:38

Yeah. [laughter]

Duane Johnson 13:39

Well, Dave, is there any particular businesses which you've seen really benefit from conducting a cash flow analysis and any that come directly to mind for you?

Dave Biedenbach, SBDC 13:48

Yeah, I mean, a client that I just recently worked with, they had a major business disruption with the COVID-19. They essentially had to shut down, lay off employees. And so he immediately started going through the process of planning for how he's going to continue to operate as a business for the next three, six, twelve, eighteen, twenty-four months. So, and again, he went through and did all kinds of different scenarios in similar to kind of how I described before.

Dave Biedenbach, SBDC 14:17

He identified, and a little bit what Dwayne was just touching on, is that there was those fixed costs that typically people feel that, you know, that there's nothing they can do about it. But he was able to go through and work with vendors, insurance agencies, and so forth to make adjustments to either the insurance policy or do some delay in debt payments. So, you know, again, he, first of all, went through that analysis to find out, you know, what kind of costs that he could address on, you know, an item by item basis.

Dave Biedenbach, SBDC 14:49

And then once he has a better taste of kind of decisions he can make on reducing some of those costs, then he could start projecting those out. And again, he went through, I think he ended up going through like six or seven different scenarios, both on severity and longevity. So, you know, at that point in time, he found that worst-case scenario, he needs an additional million dollars of cash into his business to stay afloat.

Dave Biedenbach, SBDC 15:17

That's when he started going out and looking at the different types of programs that are out there that are being introduced. Also working with his banker about doing some possible refinancing and so forth. So he was probably, he did a very good job of getting in front of it right away when he knew that he needed to. And I think he's in a really good position right now and prepared to pivot as much as he needs to, just to keep the business rolling.

Steve Adams, host 15:43

Well, Dave, I know the SBDC has just been overwhelmed with this COVID-19 environment, but if I wanted to get help from you from the SBDC to help me through a cash flow analysis and maybe do some projections, how would I do that?

Dave Biedenbach, SBDC 15:58

SBDC, it's a national nonprofit organization, it's been around since 1981. A large portion of our funding comes through the Small Business Administration. And so what that means is that we can provide our services for free for as long as a client needs us. There's 15 offices in the state of Iowa. And each one of those offices are affiliated with either a university or community college. And so you can go to our website at lowaSBDC.org and you can find a regional office that's closest to you.

Dave Biedenbach, SBDC 16:28

There's also a phone number right on our website you can call to and the person will get you to the right office that's most convenient. So each one of those regional directors in those offices has access to, if they don't have the expertise, they have access to expertise to help people work through your cash flow projections, so any of the offices should be able to help people out.

Steve Adams, host 16:50

I've been up to the website several times and you have a really good COVID-19 resource page up there with a variety of tools and options people can access. So pretty self-explanatory once you get up there. Duane, any last advice from you? And if someone needed to contact you, what would be the best way to do that?

Duane Johnson 17:11

Yeah, Steve, I think the main thing for people to keep in mind is just, if they're not doing the cash flow right now, just to get started, start somewhere. If they are currently doing a cash flow, but they need some help with that, we can help them. In either case, I would encourage everyone to just give us a call, either get ahold of the SBDC or they can contact one of us directly. For myself, the best way to contact me would be, I'll give my office phone, even though we're not working in the office right now, I still get those messages immediately. And that number is 515-296-3473. And then my email address is duanej@iastate.edu.

Steve Adams, host 18:05

Well, gentleman, I gotta say thank you very much to both of you for being with us today. All of this was extremely enlightening and I appreciate the time that you've taken to maybe help educate and elucidate some of these very difficult situations that people are going through right now. So if you have any

questions about this Back to Business podcast, please feel free to contact me, Steve Adams, at stadams@iastate.edu, and thank you for listening.

Steve Adams, host 18:40

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