Mastering Cash Flow: A Practical Guide for Busy Founders

Avoid these 5 costly errors!

Certified B Corporation

PROFIT REIMAGINED INC™

The hard reality is that cash flow is one of the most critical lifebloods of a business.

Hello!
I'm Christina, your fractional CFO with over 20 years of experience in creating strong financial management processes.

With this guide, our aim is to inspire you to find a balance between mission and profit, to make a positive impact in this world, and to achieve financial equality through your socially responsible business.

Before we delve into the practical aspects of the guide, let's discuss the purpose behind having a healthy business.

When I say purpose, I mean it in two vital ways: firstly, **the importance of having a clear purpose that acts as a guiding beacon for your business,** and secondly, **the peace of mind that comes from understanding your business finances as a founder.**

As mission-driven entrepreneurs, we face unique challenges, far beyond those encountered by traditional businesses. That's why a strong, driving purpose is essential, especially during tough decision-making moments.

As a fellow founder, I understand the weight resting on your shoulders. The responsibilities of financial management, personnel, strategy, and business performance all seem to converge at the founder's feet.

However, it's crucial to remember that a resilient, long-term mission is the key to sustainable profitability.

Purpose and profit are not opposing forces; they're partners in driving your business forward.

Let's start!

Certified B Corporation

#1 Forecasting expenditures based on past results only

While you can learn from past results, forecasting the future only based on past results won't give you the future visibility you are looking for.

When you forecast based on past results, likely, you don't take into account additional expenditures to support your growth.

For example, the cost of hiring new team members, the cost of new software, the increase in marketing spend, the need for new warehouse space to support your growth.

Beyond these expected costs, you must also be prepared for the unexpected. Unforeseen events, like payment delays when dealing with new customers or project setbacks due to internal factors, may impact your plans.

While having historical data is vital in forecasting, you need to account for the unknown and test for what-if scenarios to ensure they can cover the future overhead to support the business growth.

Certified B Corporation

#2

Overestimating the sales line!

Seriously, don't!

Avoiding cash shortfalls requires a balanced approach to estimating your revenue and expenditures. When you overestimate sales and underestimate expenses, you may find yourself in a financial bind.

To steer clear of this situation, **take a closer look at your assumptions about sales.** Review the quantity of products or services you expect to sell and carefully consider your pricing strategy.

Understanding the historical conversion rate from lead to prospect to customer can be instrumental in this process.

When it comes to pricing, **be cautious not to solely rely on value-based pricing.** While it can be effective, it's essential to also know the actual costs involved in producing your product or serving your clients.

This knowledge will help you set prices that are both competitive and sustainable.

#3
No clue of the cash flow conversion days

In simple terms, the cash flow conversion cycle day refers to the number of days it takes to receive payment from customers or clients, the number of days before you need to pay suppliers, and the number of days it takes to sell your inventory.

If you sell your product or service quickly, but it takes 60 or even 90 days to receive payment, you'll face a substantial cash-flow gap.

On the other hand, if you pay your supplier too quickly, but it takes longer to collect cash from customers, you'll encounter another large cash-flow gap.

Moreover, if it takes 60 to 90 days to sell your inventory, but the supplier requires upfront payment, you'll have yet another significant cash-flow gap.

This is why it's crucial to include the cash flow conversion cycle in your forecast.

Important note:
Without it, your cash flow forecast may mislead you.

Certified B Corporation

#4
Thinking forecasting as a finance function alone

NEVER alone!

The most practical forecasting happens when you are taking data from all business processes:

- marketing
- sales
- human resources
- information technology
- supply chain
- operation

Getting every leader within your business, not only finance, to sit down and forecast together.

By doing so, then you can make the best strategic business decision with growth in mind.

Certified B Corporation

#5 Lazy forecasting

Staying one step ahead is essential. That's why it's crucial to avoid the biggest mistake: creating a perfect forecast and forgetting about it.

We know that businesses are constantly evolving, with new developments affecting cash flow every week. To navigate these dynamic waters successfully, forecasting must be a continuous activity.

It's vital to make frequent adjustments that accurately reflect your business finances at any given point in time.

Consistent forecasting offers a multitude of benefits. Firstly, it helps you tackle current cash flow crises with ease. Secondly, it enables you to prevent potential future crises before they even occur.

Thirdly, it allows you to set ambitious yet achievable goals, ensuring profitability in the long run. And lastly, consistent forecasting enables you to identify opportunities for future growth and success.

Don't let lazy forecasting hold you back. Embrace the power of continuous, accurate forecasting and propel your business towards a brighter and more profitable future.

Stay ahead, and success will follow!

Types of cash flow

Financing cash flow

- + Net debt proceeds
- + Net equity proceeds

Investing cash flow

- Next capital expenditures (CAPEX)

Operating cash flow

- New income
- + depreciation and amortization
- +/- Non cash items
- +/- changes in Networking capital

Let's dive further into the last one, operating cash flow.

Certified B Corporation

1:
Monitoring Cash Flow

Remember:
3 M's: monitoring, managing & modeling

Stay ahead of the game with your business by keeping a close eye on its financial health.

This involves consistently monitoring your cash inflow and outflow data, as well as identifying a crucial date on the calendar we refer to as the "runaway date."

The runaway date is the day your business would have to shut down if it doesn't generate enough revenue.

Depending on your business's size, if this date falls within 3 to 6 months from now, it's imperative to devise a plan immediately to extend the runaway date.

Take action now to secure your business's future.

2:
Managing Cash Flow

Congratulations on reaching this crucial step in your business journey!

Now, you're equipped to take charge and proactively tackle both risks and growth opportunities, ensuring a positive cash flow.

To achieve this, it's essential to analyze operational transactions meticulously. Here's what you'll be doing:

1. Ensuring timely payments to suppliers, based on negotiated terms, rather than paying prematurely.
2. Managing slow-moving inventory by bundling products strategically.
3. Reviewing day-to-day operational transactions to optimize efficiency, resulting in faster cash inflow and controlled cash outflow.

Once you've mastered the art of cash flow management, what more could you possibly need?

Certified B Corporation

3:

Modeling Cash Flow

Modeling cash flow addresses a crucial question that many founders ponder: “What if “X” were to happen on this date - can the business cash flow support it?”

As a founder, mastering the art of cash flow modeling empowers you to clearly articulate and understand the causes and impacts of events on your business’s cash flow.

The key to this step lies in considering both growth and risk angles. You cannot solely focus on growth without factoring in the associated risks, and vice versa.

This third step requires a profound understanding of your business, the findings from step 1 (your runaway date), cash monitoring, and the actions taken to extend the runaway date, as part of step 2 (cash management).

Ultimately, the purpose of modeling your business cash flow is to stress-test your company against the most probable scenarios, enabling you to better prepare for potential outcomes that might affect your runway date.

When you diligently monitor, manage, and model your cash flow, you gain a clear grasp of your runaway date and the levers at your disposal to extend it.

Through rigorous stress-testing of various hypothetical situations, you fortify your runaway date, making it more robust and providing a foundation for more straightforward decision-making. This clarity not only helps you prioritize effectively but also allows you to take the right actions for your team and stakeholders.

Certified B Corporation

It's time to have an accountability partner.

We get it!

You are a busy founder running a busy growing business and don't have time to do active forecasting.

If this is the case with you, let us help you with the financial back-office function that comes with an experienced fractional CFO. You will gain financial visibility sooner rather than later.

We want to inspire you to balance between mission and profit, to create an impact in this world, and to achieve financial freedom through your business for good.

Click here to reach out and say hi!

in christinasjahlivirtualcfo

Let's start something amazing!

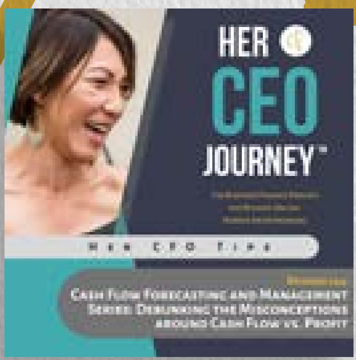
Certified B Corporation

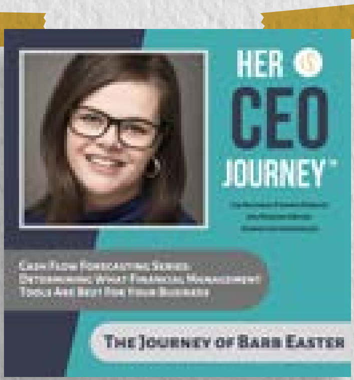
Want to get deeper in this topic?
Check these episodes of

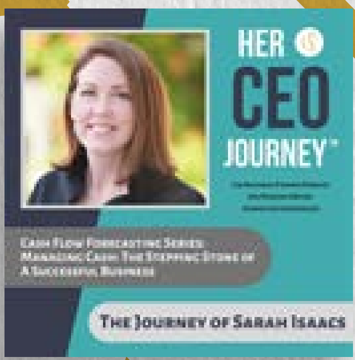
HER CEO JOURNEY™

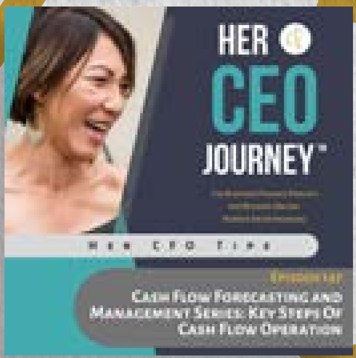
The Business Finance Podcast for Mission-Driven Women Entrepreneurs

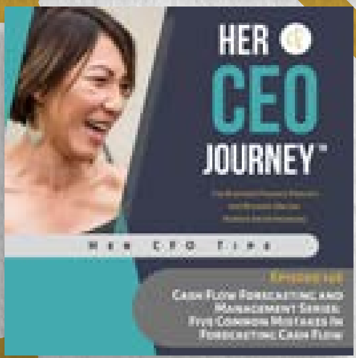
click on them to hear the episode











And don't forget to subscribe for more :)

Certified B Corporation