



CASH-FLOW MANAGEMENT DURING AND AFTER COVID-19 PANDEMIC



part of **growvc**
group



Mission

Scale innovation entrepreneurship globally via ecosystem development and digital transformation.



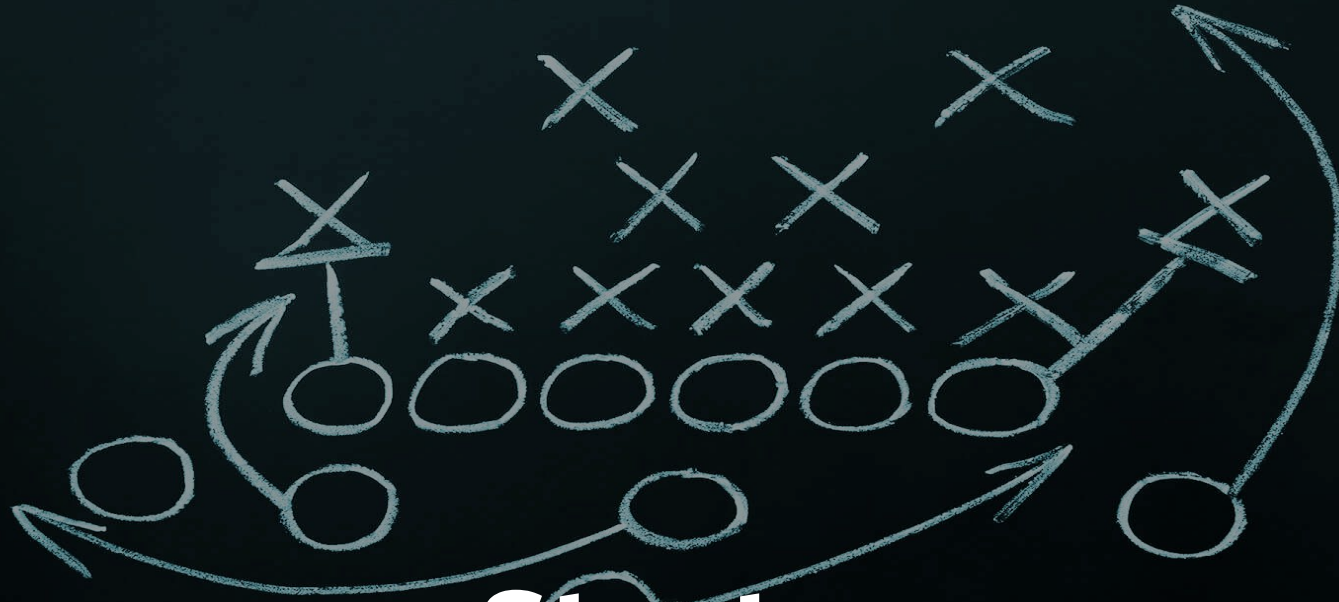
Accelerating Startup Ecosystems Development Globally

Education - Consulting - Digitalization



Vision

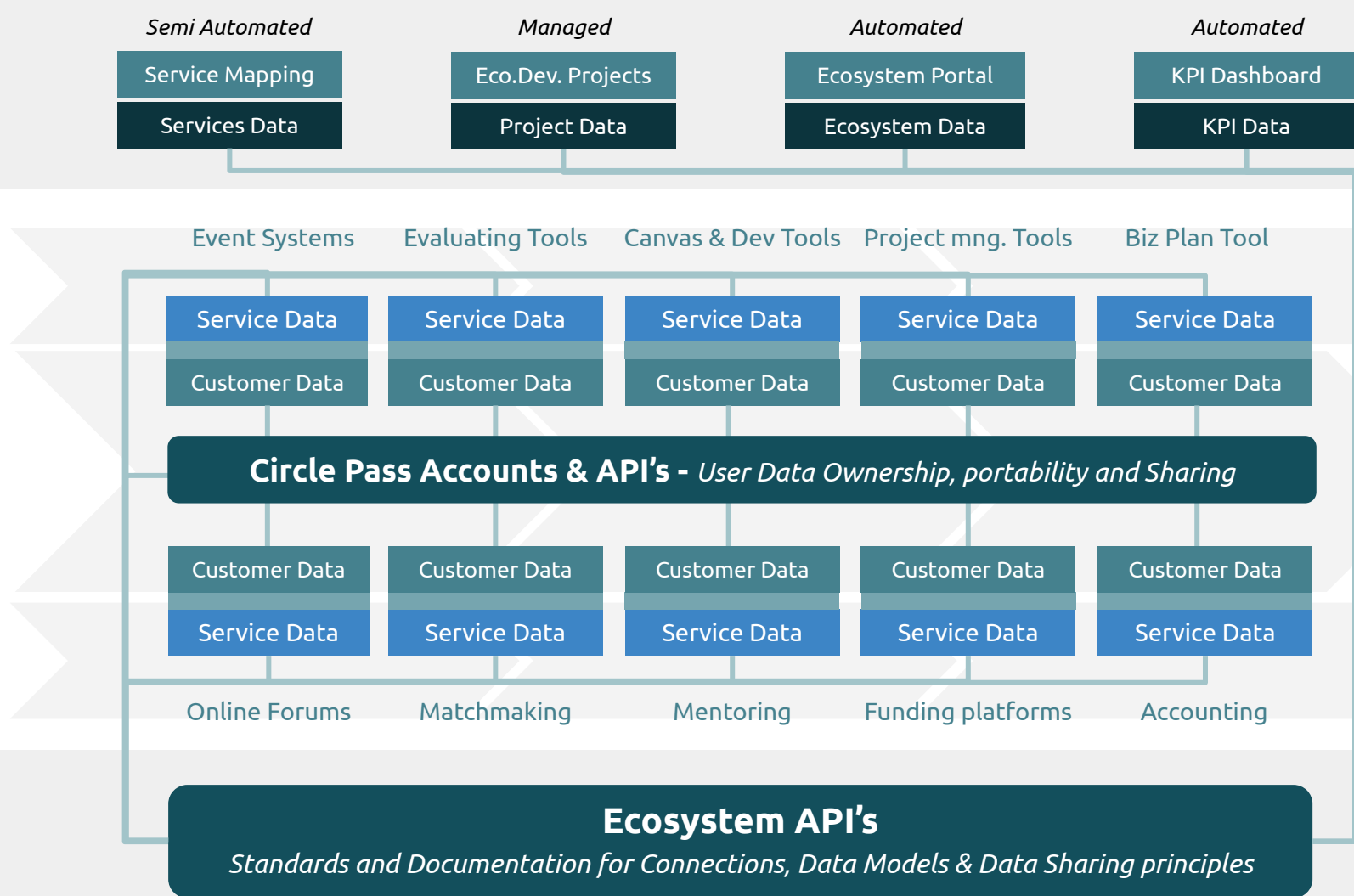
*Connect & enable data flows within and between
startup ecosystems globally*



Strategy

Be globally neutral, share & license; knowledge, best practises and digital solutions for ecosystem orchestration in a scalable way, and collaborate in open standards development.

Digital Architecture For Ecosystem Development



Selected Organizations We Worked With

STARTUP
ESTONIA



City of Helsinki

MAGIC



EWING MARION
KAUFFMAN
FOUNDATION



Agro forte. Brasil forte



MINISTRY FOR FOREIGN
AFFAIRS OF FINLAND



STARTUP CALGARY



/ University of Porto



Background

Jouko Ahvenainen

Advisor, Startup Commons

Global serial-entrepreneur

**Companies, e.g., Grow VC Group,
Robocorp, Prifina, Difitek**

**Hands-on experience to manage
startups 20 years, including finance
and funding (worked thru 2000
dotcom and 2008 finance crisis)**



Target of this session

- No miracles, how you get money over the crisis
- This is to understand
 - Why to have systematic tools and processes for cash flow,
 - How to use them in practice,
 - What you can conclude from your forecasts and analysis,
 - How should you act based on the forecasts and analysis
- This is about tools and models to get things to your control, although the business environment is out of your control

Why?

Let's be realistic

- Cash flow management is a tool and source of information to lead the company
- It doesn't offer any miracles, you still need to make more money than you spend
- But it helps to
 - To know what you are doing
 - Act early enough
 - Have time to look for solutions

Cash flow is a key driver in startups and SMEs

- Cash flow is always important, maybe the most important daily management tool in startups
- Now this has become more critical in the current crisis
- Startup management should always know the cash position, forecast for a few weeks minimum and have scenarios to manage different situations
- Cash flow management is not only a task to finance people, typically they cannot even do it alone

CEO must manage cash

Typical comment “we just generate cash flow forecast from the accounting system.”

NO! It doesn't work in that way

Often the finance professionals and department even mean a different thing with cash flow forecast than the management should use to run the company

A proper cash flow forecast need data from several sources and insight to combine the data

It is the best estimate of scenarios

- From the financial statements you can see historical costs and revenue
- You must then make evaluation, if the future is like the past or something different
- Some businesses are much easier to forecast than others
 - For example, recurring revenue easier to forecast than one-time projects

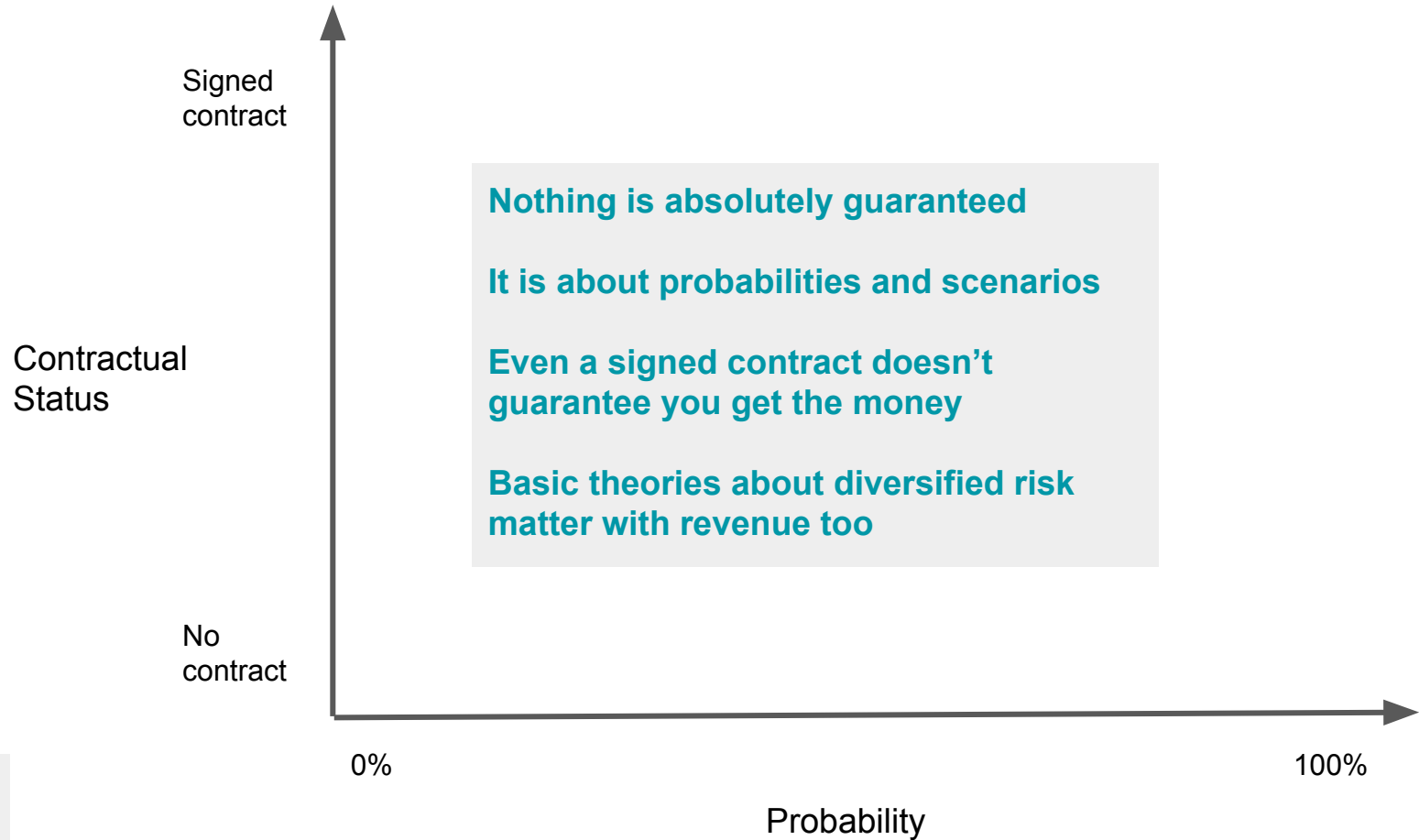
How?

Week starting															
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	
1	Scenario			Likely	Uncertain										
2	1=Guaranteed, 2=Likely, 3=Uncertain		2	100%	30%										
3	Week starting	Year today	7/13/2015	7/20/2015	7/27/2015	8/3/2015	8/10/2015	8/17/2015	8/24/2015	8/31/2015	9/7/2015	9/14/2015	9/21/2015	9/28/2015	
4															
5	Starting balance		\$8,000	\$2,000	\$2,000	\$700	\$10,700	\$9,505	\$9,835	\$1,000	\$5,000	\$4,700	\$5,915	\$5,600	
6															
7	Gross revenue	\$162,586	\$11,209	\$18,250	\$3,050	\$7,750	\$8,900	\$7,909	\$4,135	\$3,050	\$17,000	\$20,184	\$1,650	\$11,525	
8															
9															
10	Anticipated payments														
11	Guaranteed	\$162,586	\$209	\$0	\$3,050	\$2,750	\$0	\$209	\$0	\$3,050	\$0	\$209	\$1,650	\$4,800	
12	Likely		\$11,000	\$18,250	\$0	\$5,000	\$8,900	\$7,700	\$4,135	\$0	\$17,000	\$19,975	\$0	\$6,725	
13	Uncertain		\$0	\$0	\$10,000	\$10,000	\$0	\$11,000	\$6,250	\$21,000	\$0	\$11,000	\$0	\$0	
14															
15	Client related payments														
16	Actually received	\$162,586	\$209	\$0	\$250	\$12,750	\$13,905	\$5,209	\$10,365	\$24,750	\$8,500	\$8,500	\$1,650	\$11,000	
17	Actual vs likely total (G+L)		-\$11,000	-\$18,250	-\$2,800	\$5,000	\$5,005	-\$2,700	\$6,230	\$21,700	-\$8,500	-\$11,684	\$0	-\$525	
18															
19	Gross balance		\$19,209	\$20,250	\$5,050	\$8,450	\$19,600	\$17,414	\$13,970	\$4,050	\$22,000	\$24,884	\$7,565	\$17,125	
20															
21	Fixed costs		\$0	\$1,890	\$26,320	\$1,500	\$15,000	\$10,120	\$19,200	\$19,320	\$0	\$2,065	\$1,890	\$8,100	
22	Variable costs		\$100	\$100	\$6,964	\$100	\$100	\$100	\$100	\$0	\$100	\$5,220	\$100	\$0	
23	Extraordinary costs		0	0	0	0	0	0	0	0	\$8,500	\$0	\$0	\$0	
24	Running weekly costs	\$193,975	\$100	\$1,990	\$33,284	\$1,600	\$15,100	\$10,220	\$19,300	\$19,320	\$8,600	\$7,285	\$1,990	\$8,100	
25															
26	Cash flow change		\$11,109	\$16,260	-\$30,234	\$6,150	-\$6,200	-\$2,311	-\$15,165	-\$16,270	\$8,400	\$12,899	-\$340	\$3,425	
27	End of week balance estimate		\$19,109	\$18,260	-\$28,234	\$6,850	\$4,500	\$7,194	-\$5,330	-\$15,270	\$13,400	\$17,599	\$5,575	\$9,025	
28	Actual end of week balance		\$2,000	\$2,000	\$700	\$10,700	\$9,505	\$9,835	\$1,000	\$5,000	\$4,700	\$5,915	\$5,600	\$8,500	
29															
30	Runway with cash flow (mths)														
31	Cash reserve (mths)														
32	Cash reserve fixed costs (mths)														
33															
34	Accessory sums														
35	Guaranteed + Likely		\$11,209	\$18,250	\$3,050	\$7,750	\$8,900	\$7,909	\$4,135	\$3,050	\$17,000	\$20,184	\$1,650	\$11,525	
36	Cumulative revenue	\$162,586	\$173,795	\$192,045	\$195,095	\$202,845	\$211,745	\$219,654	\$223,789	\$226,839	\$243,839	\$264,023	\$265,673	\$277,198	
37															
38															

Fixed costs are the basis

- It is good to start to build the forecast with fixed costs
 - Salaries, rents, service subscriptions, taxes, etc
- Then it is necessary to forecast the variable costs
 - Historical costs help in this category, e.g. travel, project and average one-time costs
 - These can also depend on customer projects, e.g. materials or 3rd party services
 - You can change these easier than fixed costs

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Revenue has many categories

- You can categorize revenue in several ways, e.g.,
 - a. Recurring versus non-recurring
 - b. Signed contracts versus not confirmed
 - c. Historical evidences from the stability of customers, sales cycles, saler person's reporting accuracy, signals from customers, payment times, market trends
 - d. Data analytics tools can be used, but experienced management and sales people have also their gut feeling

Basic risk management

If have 50% likelihood to get \$100,000 from one customer, or \$100 from 1,000 customers with 50% likelihood from each, the mathematically expected outcome is the same, \$50,000

But this is not enough for your risk valuations, when the distribution of possible outcomes is actually more important to you

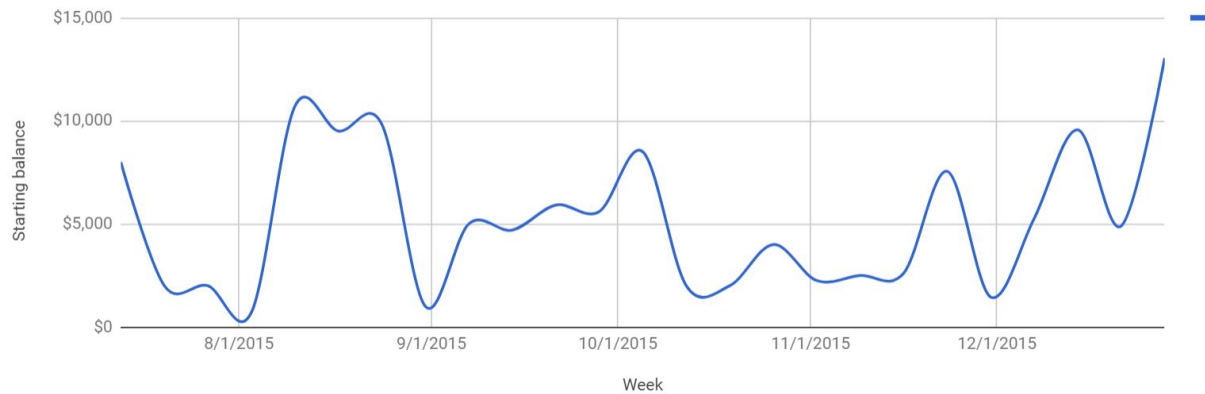
One excellent customer is nice to have, but more you can distribute your revenue risk to several customers, it helps you to manage the risk

Timing matters

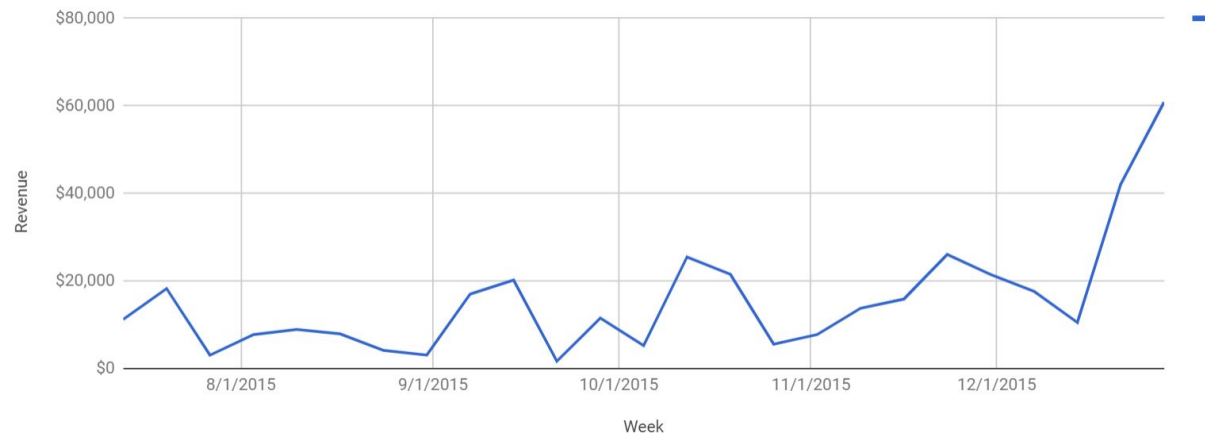
- Monthly level is not typically enough
 - When you must pay bills, taxes and salaries, you must get the money before that, so the exact days matter, especially if you don't have a lot of cash buffer
- The estimates must be realistic, it is when you really expect to get the money to your bank account
- You must adjust estimates at least weekly
 - The tables need also basic housekeeping, e.g., if you didn't get payment you expected to get, you must move it to the future, if you still believe to get it

[illegible]

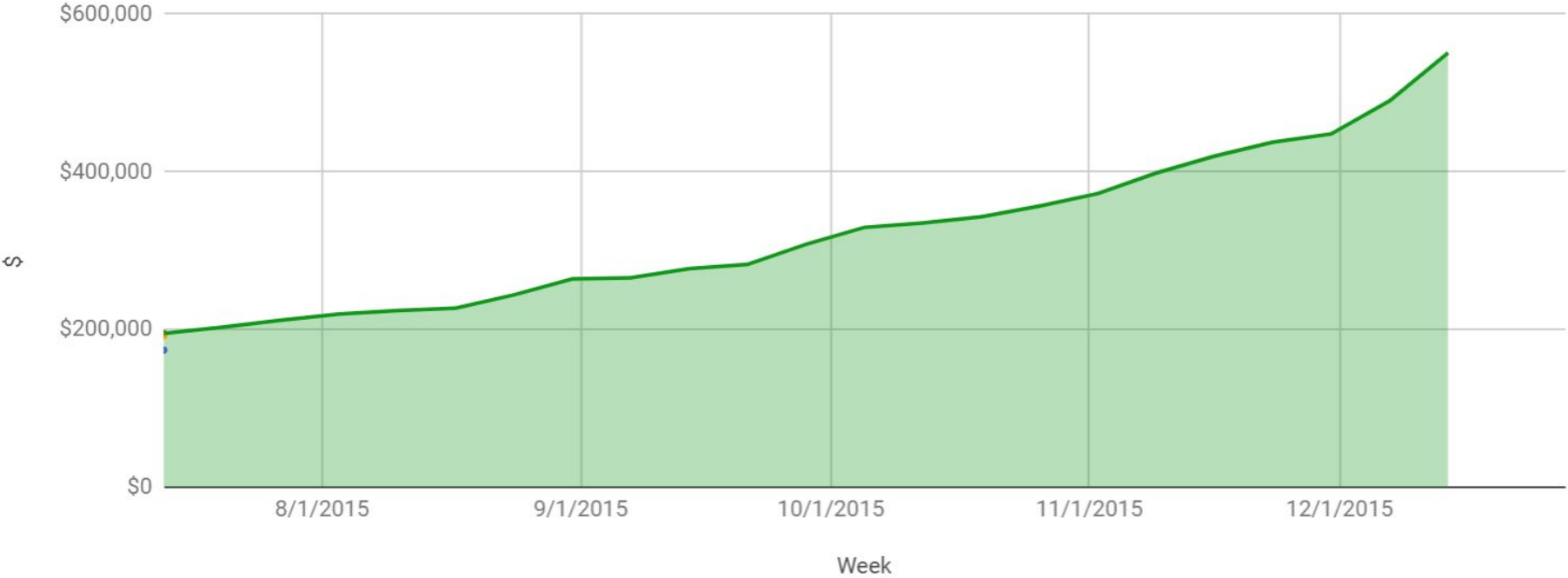
Cash position



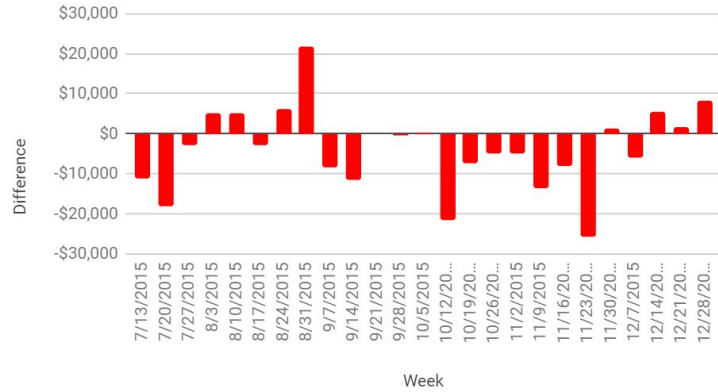
Expected revenue



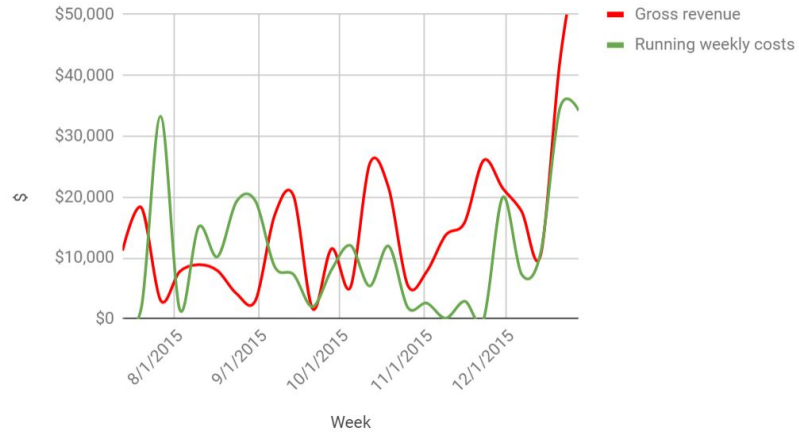
Cumulative revenue



Actual vs. likely total projection



Likely revenue vs costs



Learn all the time

- You must start with something, make assumptions and the best estimates you can
- When you see, how your estimates work, then you make them better all the time
- It is important to utilize all learning and insight for the forecasts, it helps you to run the business better
- It takes time and work to maintain forecast and also adjust models and probabilities, but it pays back to you
- CEO must be interested in this

Actions

Conclusions and actions

- There are no fixed rules, what to conclude and how to act
 - Some companies need and want to have 3-month cash reserve, some can live with 3-week reserve
 - It is a decision to be made, how much risk the company wants to take with the cash reserves
 - More reserves can mean less investments and growth opportunities, but very small reserves can mean liquidity problems when any problems emerge
- At least, each company must understand their cash management policy and prepare to act based on it in each situation

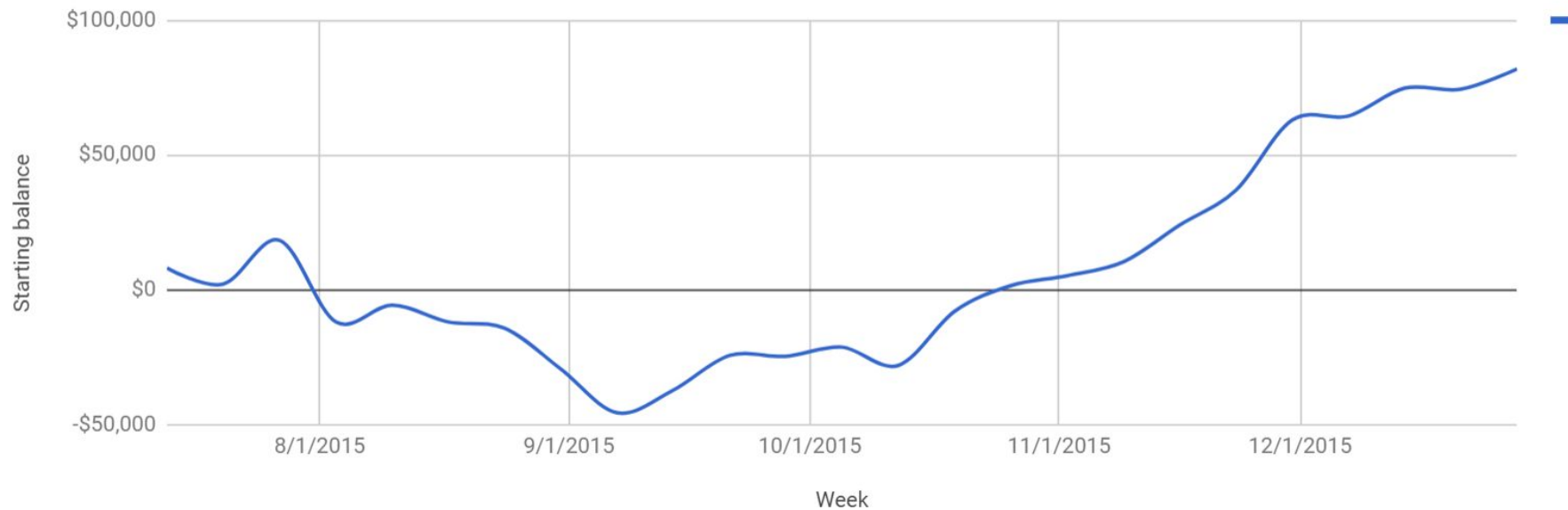
Too much cash

- Many people can feel, it is not a problem, but in the business, you must know, what you want
 - Invest and hire more people to get more growth
 - Pay dividends to shareholders
 - Prepare for worse times, but evaluate how to keep it
- It can be scaring to use your cash and you must find the right way to use it, but typically no business grow without investments and risk taking
- Timing is the critical thing also with investments and hiring

Not enough cash

- If your cash flow is constantly negative, you must make conclusions:
 - Is it really an investment and you can get more cash from investors or lenders
 - Is it that your products or operations are not profitable and you must make changes
 - Is it too poor sales performance, and you must find ways to sell more
- Product and operations profitability analyses are its own topic, but they might be needed to manage cash flow

Cash position



Sudden negative surprises

- Market or economy changes, problems in sales, problems in deliveries or supply chain, etc
- When you detect potential problems, you must immediately evaluate impact on the cash flow and update your scenarios
 - And when you learn from the situation, you can update it
 - How long term problems you expect
- It is better to act than hope and wait
- Local laws and regulation also have impact, what you can do and when
 - For example, how rapidly you can fire people or close down some operations, and what are the costs of those actions

What can be done

This is not rocket science, but you must be pragmatic and creative

Better to try than regret

**Too often people can think something is impossible
before they check, ask or try**

**It is to get more cash and use less → sounds stupid to say, but that is
anyway the formula you must use**

**Talk also with other people, you can be stuck with your own thoughts,
especially when it is very stressful situation**

More revenue, examples

- Talk to your existing customers and ask, if you can make something more for them
- Ask from customers, if they have need for something else you could do
- Contact all customer prospects and try to find out, if something to do to get them to buy and buy sooner
- Talk internally with sales and product people, what ideas they have to sell more and get better prices
- Can you sell something else that has now more demand in the market
- Try to see, what your competitors and other companies in your industry are doing successfully

Cut costs, examples

- Have you unnecessary costs
 - People might be disappointed from same cost cuts, but it is to save the company and jobs
 - During a crisis, you have no luxury to have 'nice to have things', everything must help you to make better business
- Talk with your employees, do they have any ideas, how you can save money and are they willing to be flexible with salaries or other things
 - This depends also in local laws and regulation, what you can do
- Check, if you can postpone some payments or get lower prices from your suppliers (they also want you to survive)
- Check if any programs to get help, e.g., defer tax payments, pay less social security or other similar fees
- If you have loans, talk with the bank to postpone payments or find other arrangements
- **Talk also with your accountant, tax advisor and lawyer, what recommendations they have**

Get more funding

This depends very much on your business and situation

In practise it means an investment or a loan, or some grants

Investors want to see future growth and returns in your business

Banks especially want to see guarantee you can pay back (e.g. a personal guarantee, collaterals or assets)

Alternative finance service, e.g. crowdfunding, lending services, and p2p loans can also help, but be careful with loan sharks that utilize the situation

Regional or national agencies can offer grants, emergency funding, loans or guarantees

Be realistic, for example, if you suddenly run out of money, it is typically not the time to start to contact Venture Capitalists

COVID-19

- There are many special programs in cities, countries, EU to support companies in the current crisis
- It is good to check locally and with local authorities, what is available
- Several companies have also collected and published information, e.g., BDO has collected a list of local advices, <https://www.bdo.global/en-gb/microsites/covid-19-crisis-hub/main-homepage>
- Many companies also have listed Covid-19 specific business recommendations, e.g., McKinsey, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-cfos-role-in-helping-companies-navigate-the-coronavirus-crisis>
- It is very hard to estimate now, how long time the crisis continues, but it is better to prepare for a longer time, but also realize, this is a temporary crisis, and your business can be good again after this, now it is go through the crisis

Q & A

Global Digital Finance Ecosystem



Startup Ecosystems Globally

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Part of the **growvc**
group