

EPISODE 3:

Understanding Your Cash Flow and How to Optimize Your Financial Data

Podcast Transcription

Host: Justin Hubbard | Director of Accounting & Financial Outsourcing

Guest: Krista Nash | Manager of Accounting & Financial Outsourcing

Justin Hubbard: Welcome back to the third edition of the Jumpstart Your Restart podcast, brought to you by Dean Dorton. I'm Justin Hubbard, your host this week. I'm thrilled to introduce you to the wonderful Krista Nash. She's a new addition to the team and we're thrilled to have her on board. Krista works out of our Raleigh, North Carolina office. Krista, please take a moment and tell the audience a little bit about your background and your role at Dean Dorton.

Krista Nash: Thanks, Justin; I'm glad to be here. A little bit about me: I am new to public accounting and I've spent the majority of my career so far in corporate finance. I've had the opportunity over the past several years to work for companies that were growing both organically and through acquisitions and part of my job was to assist in evaluating, implementing, and maintaining of new billing and general ledger systems when necessary that would support their growing revenues. One of the most rewarding things for me was problem solving. I would help identify bottlenecks scenarios within the financial processes and we'd work with the team to build the best solution for their accounting system with defined workflows so that we could streamline efficiencies. This allowed us to automate the delivery of accurate financial data that is necessary for the operations of the business and would aid the decision-making for the executive team.

In addition to that, and I believe equally important, was helping manage the company's cash flow. I helped to identify business risks, improved the management of receivables, and examined costs to find places to cut or control them. All of those things helped us carefully analyze operations and provide accurate cash flow projections. I recently joined Dean Dorton's outsourced accounting team with the hopes of leveraging my experiences to bring improved accounting functionality and maximize financial benefits to businesses as Dean Dorton expands their reach, not only here in Raleigh, but nationally as well.

Justin: Thank you so much for that. We're definitely glad you're on board. That was a great segue into today's topic. Today, we are focusing on looking for ways businesses can better understand their cash flow and optimize their financial data from the perspective of managing the business now, in this current unique climate, but also looking ahead to the future. Krista, it seems businesses of today need to know their cash flow inside and out. What are your thoughts?

Krista: You're absolutely correct when you say that this current climate makes it essential that businesses understand their cash flow and financial data. The good news is that building this understanding will have value long after the pandemic is over.

Justin: That sounds promising, but where should a business start?

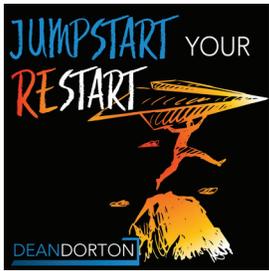
Krista: First, understanding your cash flow is not something you do once and then print the report and bind. This is a perpetual process full of trial and error. Like so much of business at its core, understanding cash flow is about understanding the business itself and its interactions. I suggest businesses do a deep dive into their operation and look at their customers, then their vendors. And lastly, but certainly not least, the work force.

Justin: So last week David Bundy interviewed me and I rambled on and on about how businesses should know themselves. Now if you're saying something similar, what does this mean in the context of understanding your cash flow?

Krista: Knowing your existing business operations is crucial. You need to know how you're being impacted by this pandemic. You need to know how your revenue is being impacted and what your outlook is post-pandemic. You should identify your strengths and weaknesses and know how you can leverage those to help you navigate through impact to your cash flow.

Justin: You mentioned customers and vendors. Now obviously, businesses have limited control over the actions of their customers and vendors. What should businesses be considering as they analyze their cash flow that is truly specific to their customers and vendors?

Krista: Well, a business should understand their customers and vendor situations. Does their business cater to an industry that is embattled by COVID-19 pandemics such as hospitality, healthcare, or restaurants? What are your standard payment terms? You should know what the short-term and long-term impacts are on your customers' buying habits such as the need for extended terms. Purchase smaller orders at a higher volume or larger orders at a smaller volume. You need to understand your cost structure, separate your variable costs and fixed costs. Variable costs include costs of sales, supplies, travel, employee wages, et cetera; whereas fixed costs include debt payments, salaries,



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and rent. You should consider the possibility of negotiating fixed costs to variable terms.

For example, work with lenders to move fixed loan payments to variable terms. You also need to understand your vendors and supply chain. Closely monitor for potential product fulfillment issues and know that your key vendors are in a healthy financial position or whether or not payment terms can be extended.

Justin: So it sounds like there's an element of give and take. You have your customers, you need to be aware of their situation, you want to keep them as customers. They also have to be realistic in terms of, have they been impacted by the pandemic and are they healthy or not? And also, what are your vendors and their costs? Do you have any wiggle room; can you negotiate to these terms with them? Can you maybe defer a cost? So these are all parts knowing your business inside and out.

I want switch gears to labor. Labor is a hot topic. Unemployment applications are skyrocketing. People are anxious to get to work, but businesses are nervous. They don't know quite how to bring people back to work if they've had layoffs or furloughs. What should businesses be thinking about as they consider cash that they plan to apply to the workforce?

Krista: Unfortunately, many businesses have endured labor reductions due to the COVID-19 pandemic. As businesses look to bring employees back to work, they should do so in stages. Businesses need to be sensitive to the fact that it may take several months for the impacts of the pandemic to dissipate. Businesses should match anticipated increases in demand with the return of their workforce. Definitely proper planning should be in place to bring back key roles at appropriate times as they begin to rebuild employee infrastructure for the post pandemic business. The business needs to understand their labor costs, and separate contract labor and employee labor. If the goal is to retain employees, consider reducing contract labor and shift those duties to employees. Analyze the cash requirements of hourly wages and look for ways to redistribute tasks to maximize the efficiency of the hour. For some salaried or key employee positions, consider offering future equity for salary reductions in the short-term. Identify non-labor compensation such as paid parking, travel, and meals, and make any necessary adjustments.

Justin: All right, so that makes sense. You talk about customers, talk about vendors, talk about your workforce. Now, you can't really talk about cash flow without talking about banks. So how do banks fit into this?

Krista: The ability to respond quickly is essential. So if a business needs to understand their financing and capital positions, consider the business's ability to access or extend capital through borrowing and look into whether the terms of any financing or capital requirements can be negotiated. Consider whether key stakeholders are able and willing to contribute or loan the business funds for increased equity in the business.

Justin: With banks, you need to keep your options open. So early on you said that cash flow analysis is a perpetual process. I believe the phrase you said is don't print it, don't bind it, don't stick it on the shelf. Can you elaborate more on the process? Shouldn't it somehow be forward-looking?

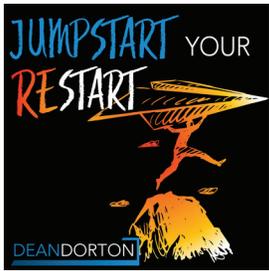
Krista: Most definitely; we suggest building operational forecasts. These forecast should include multiple scenarios that will test the strength of the business's financial position. The scenarios embedded in each forecast should be updated with new internal data, actual results, and external data. Regulatory, jobless claims, geographical data, et cetera.

Justin: Okay, that sounds nice. But also sounds expensive. So practically speaking, what does that look like? Does every company need to hire a cash analyst?

Krista: Businesses need to develop those long- and short-term forecasts. A suggested best practice would be to have a three- to five-year long-term forecast that is updated as needed. A long-term forecast gives the business insight into the long-term implications of decisions made today. A short-term rolling forecast of 12 to 15 weeks, focusing on receipts and disbursements, will serve as a powerful tool to help manage daily operations. The short-term forecast should be updated at least every other week, if not weekly. A strong budgeting function can make it easier.

Justin: Okay, so that sounds much more feasible than me having to go out and hire somebody. So walk me through this, since I've run a business: I build a cash flow analysis, like you suggested, I factor in forecast, different scenarios from here to kingdom come. Now, I still feel like I'll be missing something. I mean, I could maybe hit a home run once, but isn't there value in knowing and what went in to the process of succeeding? Don't I need a way to monitor operations to see how cash flows are impacted?

Krista: Absolutely. Businesses often understand the when, and the how of their cash flow, but lack clarity into the why. Businesses can achieve a deeper understanding by capturing non-financial data to blend with financial data for a more thorough operational analysis.



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Justin: Okay, that sounds like a KPI. So assuming that's what you're talking about, tell the audience what exactly a KPI is.

Krista: Optimizing financial data may consist of tools that track key financial ratios or key performance indicators—also known as KPIs—that are essential to decision-making. KPIs vary by industry and by company. Therefore, companies should customize their KPIs, the KPIs that are most important in their decision-making process and build systems together, the necessary data to gain deeper insight into their operations.

Justin: What are some examples of KPIs a business might use?

Krista: Potential financial KPI, are cash balance, dates and accounts receivable, accounts payable aging, and inventory turnover ratio. Financial KPIs coupled with nonfinancial KPIs, such as sales by location, product, or by salesperson, the number of customers per day of week, or the average sales per customer and an average wage per hour per project, can give you dynamic insight and analytical ability.

Justin: So how should a business go about obtaining all this data? I get the financial piece, but the nonfinancial piece—do all businesses need to invest in data analytics?

Krista: Well, automation is key when building a system to monitor KPIs. Multiple systems may be used to gather information and then transmit relevant information into capitalized source for calculating KPIs. KPIs are then made available on a user dashboard within the accounting or enterprise resource planning system. A dashboard is the customized report that provides users quick access to key data. A dashboard is only as valuable as the information it reports, though. A best practice is for dashboard data to be live data that reflects current operations, not last month's.

Justin: Yeah, the last part is essential. Live data, current operations, not 30 days, 60 days, 90 days. In this current climate we have to have live data. All right, so you've passed on a lot of good information. Sum this up for us, please.

Krista: Well, boiled down, it's pretty simple. Know your business, know what is going on with your customers, vendors, and workforce. Build a plan and build an alarm system to alert you when operations are getting bumpy.

Justin: Krista, this has been very, very insightful. Thank you so much. I loved your message more or less begging companies to reflect on their operations at every level. I think this pandemic has taught businesses many things. I think one major lesson is that we can no longer take things for granted.

Now, one last follow-up question before we go. If you look at this current business environment and the circumstances that businesses are facing now and they may have to deal with over the next few months, what is one message that you would like business owners to think about every single day?

Krista: I would say look around you and if resources available to you and make sure you're capitalizing on them.

Justin: Perfect. That's powerful. Krista, thank you so much for joining us today.

Krista: My pleasure. Thank you.