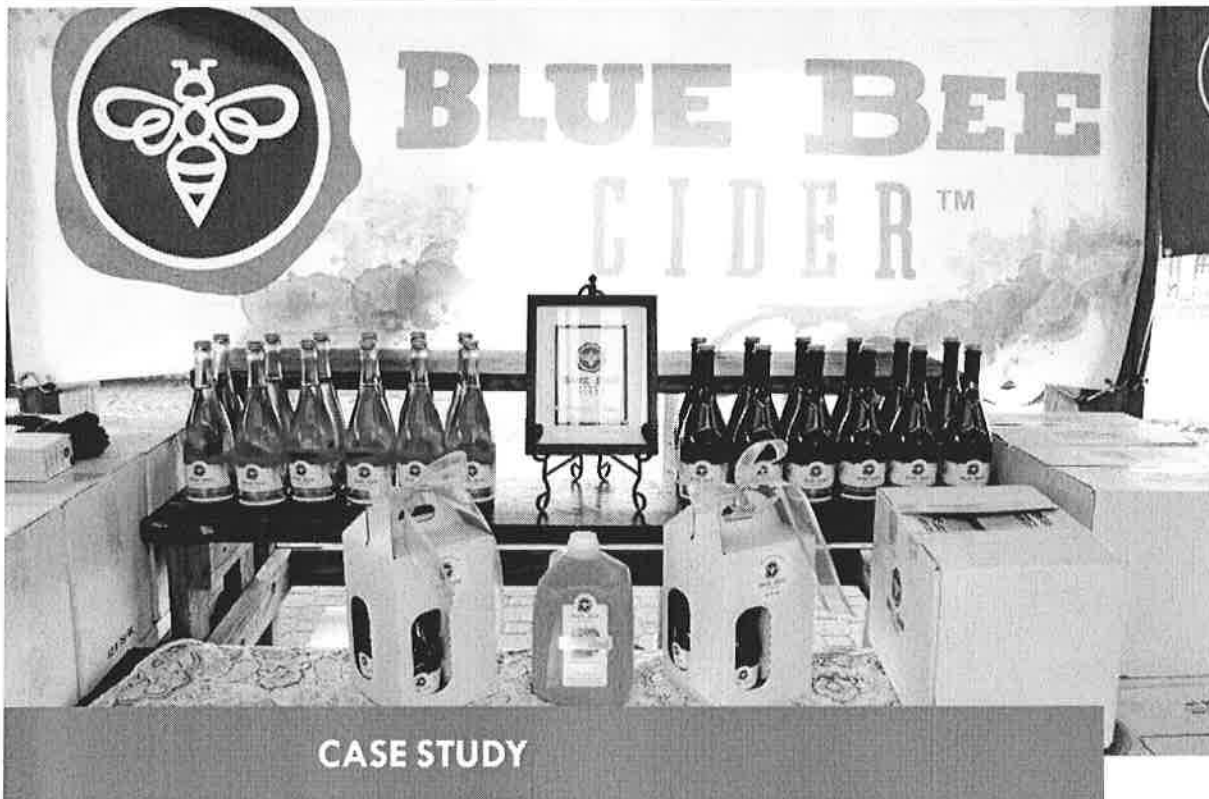


FRESH THINKING ON CASH FLOW

CASH FLOW STRATEGIES FOR SEASONAL BUSINESSES

Your revenue and expenses may ebb and flow, but you can take steps to minimize any negative impact.



CASE STUDY

HOW ONE SEASONAL BUSINESS BARRELED PAST A CASH FLOW CRISIS

What happens when sales are at their lowest just as expenses are at their highest? You throw a party.

It was a challenge that many small business owners have faced. At the end of Blue Bee Cider’s second harvest season, the Richmond, Virginia-based company’s inventory was too low to cover the costs of the upcoming bottling season.

“We had virtually pulled out of the inventory at the end of the first year,” owner and cider maker Courtney Mailey recalls. “But we did have a little bit of cider in a barrel in the back corner, so we had a party around that barrel—a big party.” The event drew 1,200 customers and generated enough revenue to cover the first two bottling runs of the season.



Courtney Mailey, founder, Blue Bee Cider

"That's how you do it in your early years," Mailey says. "You have to find ways to turn what you have into money. That's the farmer's way! I think that's how some entrepreneurs survive and others don't."

Blue Bee's expenses rise during the winter harvest and spring bottling season, while sales spike in summer and autumn. To mitigate those seasonality challenges—and further complications, such as fluctuations in crop yields and production efficiency—Mailey develops relationships with lenders who understand the agricultural sector. "As long as you find the right financial partners, it's more manageable," she says.

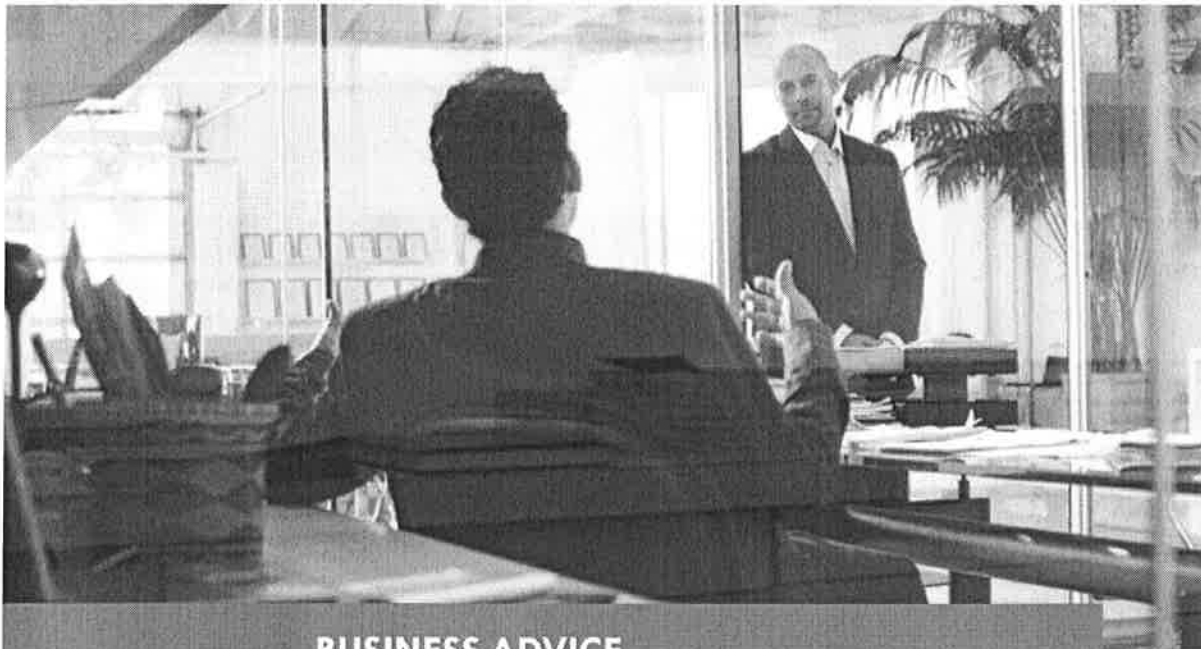
"You always have to be resourceful," Mailey says. "At the end of the day, we make things and we sell things. So if we need cash, we make something and we sell it. We're creative folks, and we want to keep making new things. So we've sort of institutionalized innovation and creativity around product development." In the first quarter of 2015, for example, the company brought out three new small batches of cider. One is smoked. The second was made using hefeweizen yeast, which adds spiciness and fruitiness. And the third was produced in collaboration with the Virginia Historical Society and is a recreation of a 300-year old recipe found in the Society's records.

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Innovation doesn't need to mean invention. It can relate to something as seemingly mundane as choosing the right location for the business. While many cider companies are located in more rural areas, Mailey opted for an urban location—a decision that has played an important role in mitigating seasonality.

"That gives us proximity to cold storage that we didn't have to build ourselves," she says. "I'm able to set fruit aside in cold storage and hold it for a longer period of time, which stretches my harvest season a little bit longer. I don't have to crush all of it within sixty days or else. We're in production many more months of the year because we have access to cold storage and frozen storage. So if we have a bumper crop of juice and I don't have an idea for it immediately, I can put that in a commercial large-scale freezer to hold it until I have a good idea."

Blue Bee grew by almost 100 percent last year, a rate that Mailey calls "a big piece of pizza to eat." Her 30 percent growth target for 2015 is intended to give the company time to organize future steps and formalize some of its systems. "That will help us catch our breath before we make another large leap in growth, if I decide to do that," Mailey says. "I'm on an annual production cycle, and I'm deciding now how big I want to be in 18 months. It starts with the amount of fruit—so I will grow my fruit supply by no more than 30 percent." That strategy supports her goal of maintaining the authenticity of her artisanal brand—and keeping her cash and her cider flowing smoothly.



BUSINESS ADVICE

THE KEY TO CASH FLOW: PLAN FOR TOMORROW; TAKE ACTION TODAY

Invest in the technology and processes that will drive your growth

As a small business owner you know all too well that unpredictability is a cornerstone of your reality. From fluctuations in the economy at the macro end to the operational challenges posed by supplier disruptions, changing customer payment preferences, inventory shortages, production interruptions, and a host of similar problems at the micro end, many things conspire to interrupt the cash flow you depend on.

But you can mitigate these factors by establishing a strong financial backend that allows you to monitor key performance indicators and predict outcomes more accurately as your business matures.

Entrepreneurs should consider what data points will be most helpful down the road, when their business is bigger and more complex and decisions need to be made more quickly," says Jared Siegel, partner at accounting and financial advisory firm Delap

LLP. "Many things in business are better if they're built before you need them. A good set of books is one of them."

Especially in the launch stage, paying close attention to your pricing and costing strategies is essential, because inaccurate estimates of either can throw your company into cash flow chaos. Accounts payable and accounts receivable play an equally critical role in helping keep your cash flow under control. By streamlining AR-related workflow from the beginning, Siegel says, invoicing can keep pace as the business scales.

An invoicing system that works well will be quick, efficient, and allow you to get a snapshot of which clients are current on payments and which are falling behind. That information can help you spot situations in which you need to adjust your terms of payment at the front end, which in turn "can go a long way to optimizing your cash flow in the early stages of your business," Siegel adds.

The credit component

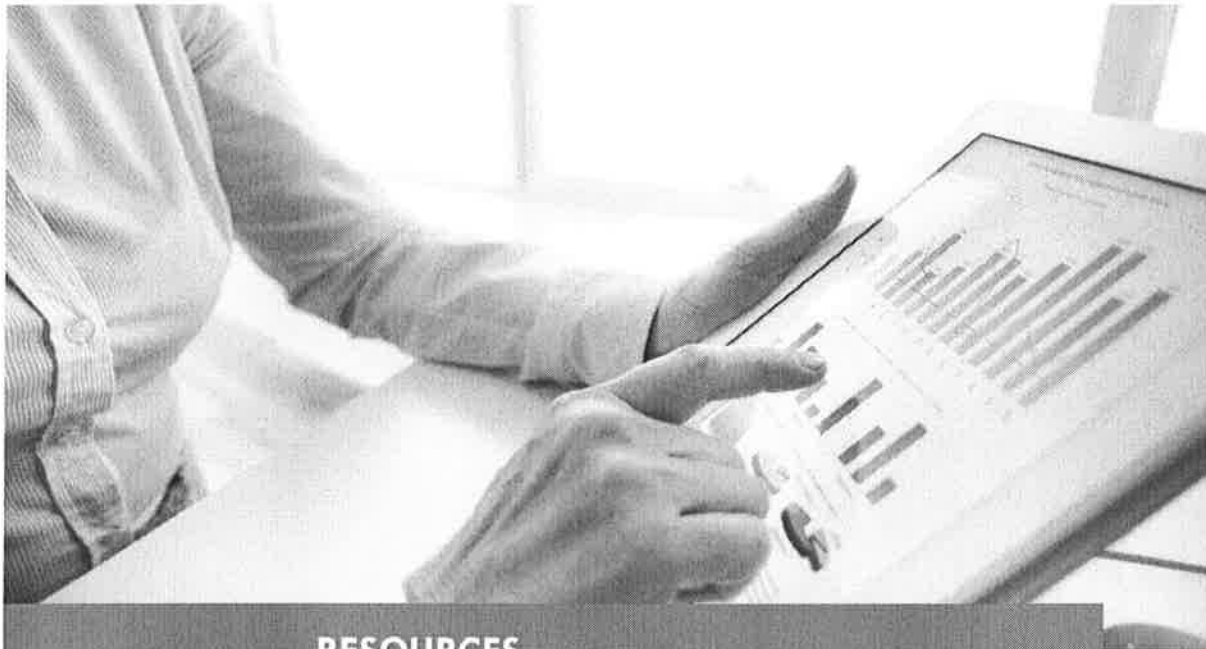
Of course, some cash flow and seasonality influences will remain beyond your control. For that reason, it's essential to maintain an adequate cash cushion and establish the credit you need to sustain your business through those inevitable ebbs and flows. "Having a credit card is one way to bridge cash flow needs, especially early in a business' life, when it's difficult to get credit from conventional lenders," says cider maker Courtney Mailey, owner of Richmond, Virginia-based Blue Bee Cider.

Creating strong financial systems from the start can help here, too, Siegel notes: they not only support your daily business objectives but help you address your future credit needs by creating the detailed financial record-keeping that boosts lenders' confidence. Seen from this perspective, cash flow management is not just about paying this month's bills, but is critical to pursuing and sustaining your company's growth.

FUTURE FILE INCREASING CLOUDS

Among the trends to watch in small business cash flow management are the transition of software from the desktop to the cloud and new choices in small business-friendly software. Kathy Yakal's review in PC Magazine, *The Best Cloud-Based Accounting Tools for Small Businesses*, is a good place to start learning about options for your company.

"There has been an explosion of financial technology," says Jared Siegel, partner at Delap LLP. "Many of the insights that were once available exclusively at the enterprise level are now available to the small business owner, with a level of customization and industry specialization that wasn't previously there." These developments can help small business owners to improve workflow efficiency, establish a more scalable enterprise resource planning platform, and gain round-the-clock mobile access to information about their companies' financial health and performance.



RESOURCES

CASH IN ON THIS ONLINE EXPERTISE

Four additional resources that can help you accelerate your progress toward becoming a master of entrepreneurial knowledge

1 Entrepreneurship.org

A project of the Kauffman Founders School, it offers a free video learning series. From the Art of Startup Finance link below, you can access that video along with links to additional videos. The series is organized in learning modules, including:

- **The Startup Finance Pyramid**
- **Financial Foundations** (Your Balance Sheet and Your Capitalization Table)
- **Financial Processes** (Your Income Statement, Your Cash Flow, and Your Business Model Formula)
- **Financial Budgeting** (Your Operating Budget and Your Long-Term Forecast)
- **Financial Monitoring: Your Performance Metrics**

Can be found here.

2 Understanding and Controlling Cash Flow

A book by Ramin C. Maysami, Ph.D., includes the chapters *Accounting Profits Versus Cash Flow*, *Working Capital Management*, and *Short-Term Credit*. A PDF is available for free download on the U.S. Small Business Administration (SBA) website.

Can be found [here](#).

3 The SBA's blog archives

The SBA's blog archives include answers to many of your questions about managing and projecting cash flow and accounting for seasonality. Topics covered include:

- **Understanding and Expanding Cash Flow**
- **Managing Small Business Cash Flow—Answers to 10 Commonly Asked Questions**
- **Six Ways to Manage Cash Flow as a Seasonal Business Owner**
- **Projecting Your Cash Flow, Made Simple**

4 Worksheets to Help You Excel

You can take one cash flow management challenge off your plate: there's no need to create documents from scratch. Several templates, all available for free download, can get you started. These resources were created by Microsoft; SME Toolkit, a joint project of IBM and the International Finance Corporation; and SCORE, a Small Business Administration-supported nonprofit association whose volunteers mentor small business owners.

- **Microsoft's Excel-based Cash Flow Statement**
- **SME Toolkit's Cash Flow Budget Worksheet**
- **SME Toolkit's Cash Flow Sensitivity Analysis Worksheet**
- SCORE's Excel-based templates address a variety of cash flow and projection needs and can be accessed [here](#)
 - 12-Month Cash Flow Statement
 - 3-Year Cash Flow Statement
 - 12-Month Profit and Loss Projection
 - 3-Year Profit and Loss Projection
 - Break-Even Analysis
- **Checklist for Better Cash Flow Management**

CASH FLOW: THE ANSWERS LIE IN YOUR QUESTIONS

Too often, entrepreneurs take a reactive approach to cash flow management: they wait until they're in a serious cash crunch before they think about it, says Michele Markey, vice president of Kauffman FastTrac. To avoid that trap, she advises, look at your calendar with an eye to your company's seasonal vulnerabilities and factor in awareness of what's happening in the economy.

"Even though I can't necessarily predict everything, I want to be proactive in my planning," she says. With that goal in mind, she suggests you develop answers to this checklist of questions:

- What does the next year look like?
- Are there months or times this year that are more seasonal?
- How long do those seasonal dips typically last?
- What can I do to minimize potential ebbs and flows?
- How can I grow my market?
- What could I do to be proactive with my market as well as my time?
- What do I expect my cash flow needs to be over the course of the next year or even two years?
- What would be an appropriate amount for me to have in my cash cushion?

The goal, Markey says, is to develop a cash flow strategy that keeps your planning focused not on your cash cushion, but on the growth or maintenance of your business.

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