

CRISIS CASH FLOW PLANNING

EFFECTIVE CRISIS MANAGEMENT

Be clear about what you need to accomplish now

- Clarify and articulate your current situation, primary objectives, tactical action plan, recovery plan, and critical funding needs
- Understand the effect of the crisis on your social impact
- Ensure you will have enough cash flow to match your revised plans for the business over the next 6-12 months
- To the extent possible, update your growth plan and funding requirements for the next 3 years
- Consider all your constituents – employees, investors, customers, suppliers, and partners
- Be ready to confidently share the revised plans with all constituents

SITUATION ASSESSMENT

Be brutally honest in your assessment of the situation. This is a high-level assessment that will help bring into focus what you should do. Considerations may include:

- Staff and customer health and safety measures required
- Changes in customer behavior (e.g. resulting from shelter-in-place)
- Impact on demand and potentially your product mix
- Lost or delayed revenue
- Supply chain disruptions
- Funding delays of grants, loans, and/or equity
- Opportunities for pivoting or modifying your business model to enhance the stability of your enterprise

IDENTIFY AND FORCE RANK PRIMARY OBJECTIVES

Create a list of objectives for your action plan, and then force rank the list based on their importance in assuring the survival of your enterprise and impact. Your objectives may include:

- Protect employees and customers
- Understand the effect on your social impact and your commitments to funders – you may have to reset commitments
- Minimize loss of revenue
- Reduce cash expenditures
- Pivot possibilities: bolster and/or modify your business model
- Extend your cash runway (length of time your enterprise can remain solvent)
- Retain key staff members
- Identify short-term funding requirements
- Lay the groundwork for a recovery plan
- Others (e.g. extend credit to loyal customers)

Depending on your situation assessment and your ranking, you may decide on only one objective or several. It's likely you won't be able to do them all and will have to make tough choices.

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QUESTION ASSUMPTIONS AND TAKE ACTION

Take high-level primary objectives and convert them into a tactical, actionable plan.

- Which products and services are absolutely essential?
- If laying off staff, focus on those not directly related to impact/customers. Which employees are absolutely essential to your impact?
- Assess real probabilities for generating revenue. Measure and cut what's not working.
- Evaluate your strategic initiatives. Postpone those that can be postponed.
- **Focus on your cash burn:** Where possible, defer payments, cut nonessential costs, and/or sell assets
- Revisit your business model to make modifications and improvements for stability

SITUATION AND ACTION PLAN MODELING

Understand the short-term financial implications of your new reality:

- Quantify your situation and action plan over the next 6-12 months (until a new normal will be achieved)
- Model changes to cash on a quarterly (or monthly) basis by considering:
 - Reductions to cash in (for example: reduced revenue, delayed funding)
 - Reductions to cash out (for example: lower variable costs, staff reductions, project delays, negotiated reductions to rent and other payments)

Sample Model: Changes to Cash

Period	Reduction to Cash In	Amount	Change in Cash Out	Amount
Q2	Reduction of Revenue	\$630,000	Add Back Variable Cost	\$378,000
(Sequester Period)			Staff Reduction	\$30,000
	Delayed Funding	\$30,000	Compensation Changes	\$12,000
			Delay Project/Programs	\$0
	New Shops		Negotiate Rent	\$6,000
			Negotiate Loans	\$9,000
			Sell Inventory/Assets	\$3,000
			No New Store(s)	\$15,000
Quarter Sub-Total		\$660,000		\$453,000
Quarterly Cash Impact				-\$207,000

- Cash change calculations should be made outside of your multi-year financial model
- Once changes to cash have been calculated, add them to your prior cash flow projections and cash reserves to understand your solvency
- If your cash goes below zero at any time, you will need to adjust your plan or be sure you have access to bridge financing

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UPDATE YOUR GROWTH PLAN AND INVESTMENT REQUIREMENTS

Your justifiable ask is more important than ever, but likely needs to change:

- Update your 3-year projection
- Focus on cash flow and funding requirements
 - When is cash flow break-even? This will be a primary concern of your investors who are evaluating their own portfolio
 - What critical funding is needed for this year?
 - How have your requirements changed for the two following years?
- Be clear about impact metrics and efficiency (cost per beneficial outcome). Investors' second concern is how efficient your organization can be in delivering your impact.
- Be open to rethinking types of capital, the amount you need, use of those funds, and investor return as a result of the disruption.
- Bridge loans may be available to help you through a cash crunch if you can show a path to recovery. Bridge loans get paid back in a prioritized fashion.
- Be open and honest about the depth of the problem and the action you're taking. Impact investors will appreciate that and are likely to react more positively.

For additional resources, webinars, and opportunities please visit millersocent.org/covid19