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Real Financial Approaches

Who does the financial work? Book keeper

Staff accountant

Staff financial manager

Seed Enterprises Wanagement Institute Investor/banker Your senior managers YOU!

Some of my best partners were:

- A good <u>banker</u>, who was willing to work with me, understand the business, help me to become more professional with respect to finance
- A good <u>outside accountant</u>, who taught me to understand the financial statements
- <u>Potential investors</u>, who taught me what they were looking for with respect to business returns
- A friend who was good at finance (or could be a board member)
- My <u>very good CFO</u> (James, Chief Financial Officer) Did not hire until year 5!

Let's look at approaches to 3 financial activities

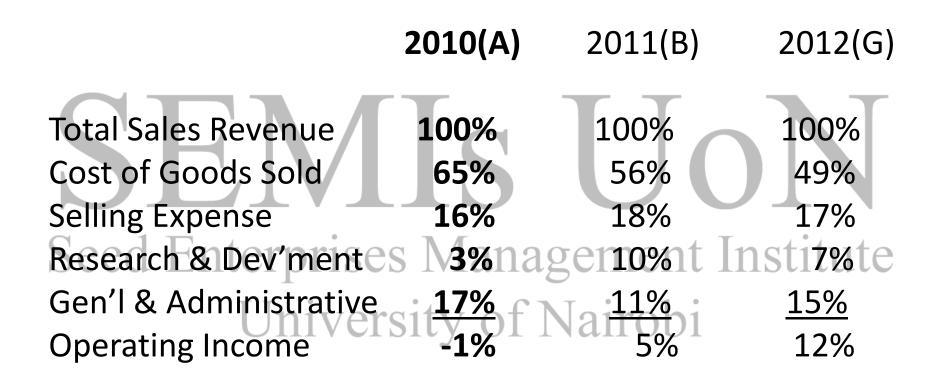
 Developing a budget
 Developing a cash flow forecast
 Making a marketing investment decision
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Developing an <u>operating</u> budget How do you do this? Seed Enterprises Management Institute University of Nairobi

My approach to budgeting was this...

- 1. Get information about your *starting point* (last year or even year before that...)
- Determine *goals* for next year (revenue level in \$, then percentages of expenses and profits)
- Test revenue goals by looking at *pricing*, volumes and cash collection assumptions
- Translate goals to hard numbers
 Play with the numbers, to see if you believe them, then add detail about expenses and revenue
- Do all of this with your senior management team, as needed and appropriate. More involvement = more ownership!

Tool # 48: Simple Financial Framework



A = Actual B = Budget G = Future Goal Use F for formal Forecast

Developing a cash flow statement

- Take your <u>operating budget and "spread it out"</u> over your fiscal year
- Add "cash in and cash out" for <u>activities other</u> <u>than your business operations</u>. These are:
- Asset purchases and sales
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 Financing activities
 - Changes in owners equity^{110b1}
- 3. Total the cash flow statement to determine your <u>working capital needs</u>

How can the Cash Flow statement help you manage owner withdrawals?

- Show the owner how an unbudgeted withdrawal will change the cash flow
- Be transparent you much share these cash flow changes with financers and investors, as required

<u>Do not shield them from the consequences of their actions!!!</u>

Let's look at an Excel Spreadsheet

Assumptions we need:

✓ Starting point for revenue ✓ Percentages of expenses ✓ Revenue growth rate Seed Enterprises Management Institute (Always remember that operating revenue is a function of price, tonnage sold, and collected revenue)

Making a marketing investment decision

- Any investment decision requires *analysis*
- Your analysis will depend upon assumptions
- Let's look at a sample investment decision:
- SSS Co wants to know if it should invest in building its customer base by producing <u>very small seed packs</u> for sale to farmers who do not know anything about SSS's products.

Practical Advice for CEOs

- Understand the power of tools like Excel
- Be capable of providing good guidance to your finance staff, and asking the right questions
- Identify and develop good relationships with your "financial advisors"
- Séelay with the numbers" Ask "what if" Institute
- Make sure that you follow up the assumptions in your budget with ACTION! For example, ensure distribution of your seed in the areas where you have made marketing investments