

Real Financial Approaches

SEMIIS UON
Seed Enterprises Management Institute
Aline O'Connor Funk
University of Nairobi

Real Financial Approaches

Who does the financial work?

Book keeper

Staff accountant

Staff financial manager

Outside accountant

Investor/banker

Your senior managers

YOU!

Some of my best partners were:

- A good banker, who was willing to work with me, understand the business, help me to become more professional with respect to finance
- A good outside accountant, who taught me to understand the financial statements
- Potential investors, 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 very good CFO (James, Chief Financial Officer)
Did not hire until year 5!

Let's look at approaches to 3 financial activities

1. Developing a budget
2. Developing a cash flow forecast
3. Making a marketing investment decision

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Developing an operating budget

How do you do this?

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My approach to budgeting was this...

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

Tool # 48: Simple Financial Framework

	2010(A)	2011(B)	2012(G)
Total Sales Revenue	100%	100%	100%
Cost of Goods Sold	65%	56%	49%
Selling Expense	16%	18%	17%
Research & Dev'ment	3%	10%	7%
Gen'l & Administrative	<u>17%</u>	<u>11%</u>	<u>15%</u>
Operating Income	-1%	5%	12%

A = Actual B = Budget G = Future Goal

Use F for formal Forecast

Developing a cash flow statement

1. Take your operating budget and “spread it out” over your fiscal year
2. Add “cash in and cash out” for activities other than your business operations. These are:
 - Asset purchases and sales
 - Financing activities
 - Changes in owners equity
3. Total the cash flow statement to determine your working capital needs

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 must share these cash flow changes with financiers and investors, as required

Do not shield them from the consequences of their actions!!!

Let's look at an *Excel Spreadsheet*

Assumptions we need:

- ✓ Starting point for revenue
- ✓ Percentages of expenses
- ✓ Revenue growth rate

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(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 very small seed packs 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”
- “Play with the numbers” Ask “what if”
- 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