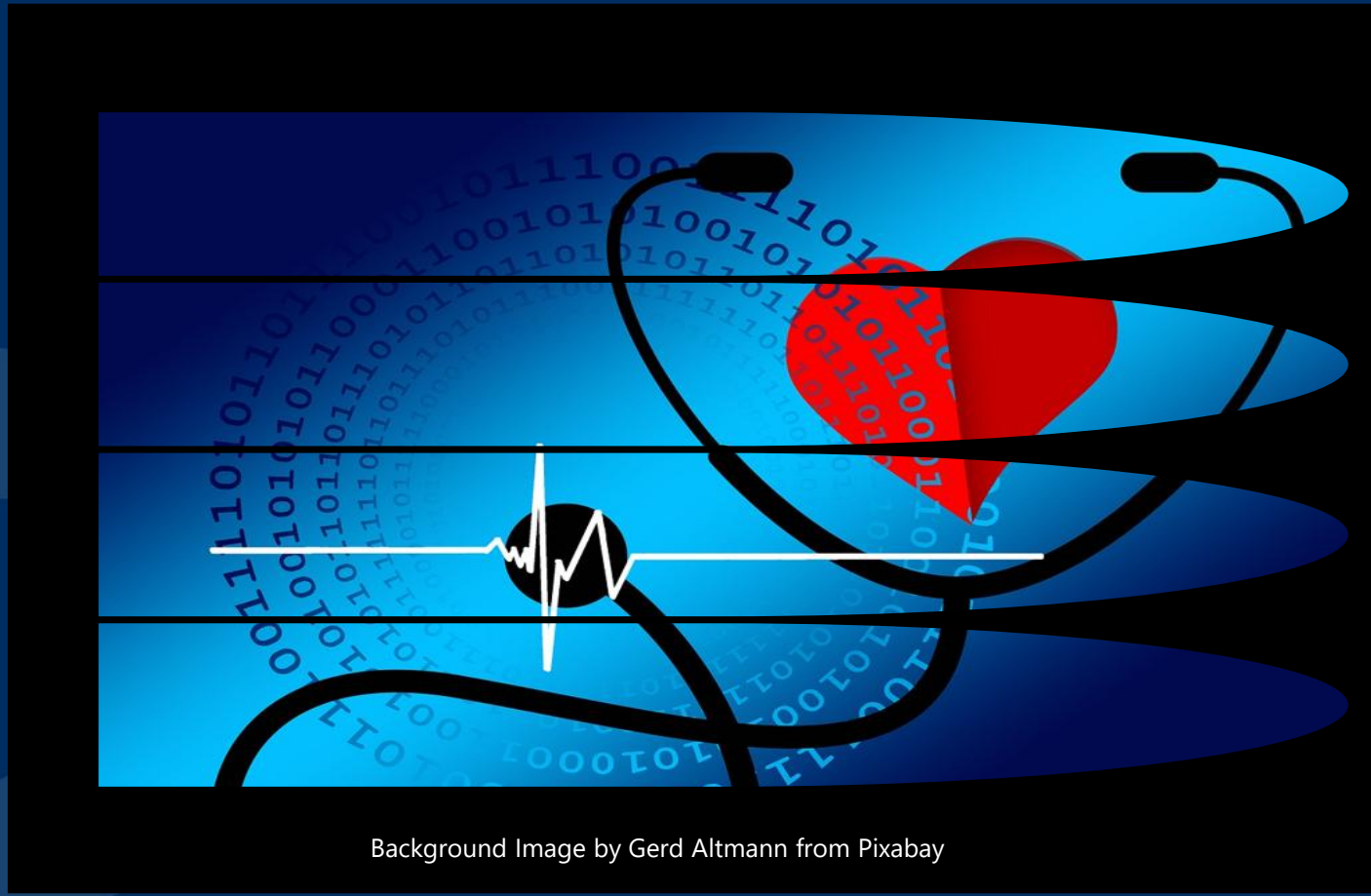
First Aid for Small Business Workshop 1



Background Image by Gerd Altmann from Pixabay

Can Your Business Carry You Through the Slow Season?

Your Presenter: Steve McCaslin

- Certified Business Advisor
- Represents Washington SBDC in Island, Skagit, and San Juan Counties
- Retired Naval Aviator
- 28 years in corporate/private sector
  - Sales
  - Strategy and Business Development
  - Business Consulting
  - Corporate Training
  - Leadership Development Training/Coaching/Mentoring
  - Economic Development
- Started business and leadership consulting firm in 2013
- BS in Agriculture from University of Georgia



Why This Matters



Photo by Gerd Altmann of Pixabay

Strong sales don't always mean **there's enough cash to make it through the slow season**

Business expenses continue **even when customer activity drops**

Your business also **needs to generate enough cash** to support what you need from it personally

Seeing a cash shortfall early **gives you more options to do something about it**

Goals

01 Recognize the financial challenges **created by seasonal revenue**

02 Connect business cash needs with **what you need from the business personally**

03 Estimate **how much cash your business needs** to make it through the slow season

04 Identify what you need to know **to build an appropriate off-season reserve**

Agenda

1

Understand the Numbers

- The Seasonal Business Reality
- What Your Numbers Are Telling You

2

Understand the Need

- Business and household needs
- Your survival number

3

Plan for the Slow Season

- Seasonal cash flow
- Building the off-season reserve

4

Test the Plan

- What if the forecast is wrong?
- What does this mean for your business?

Module One:

Setting the Stage

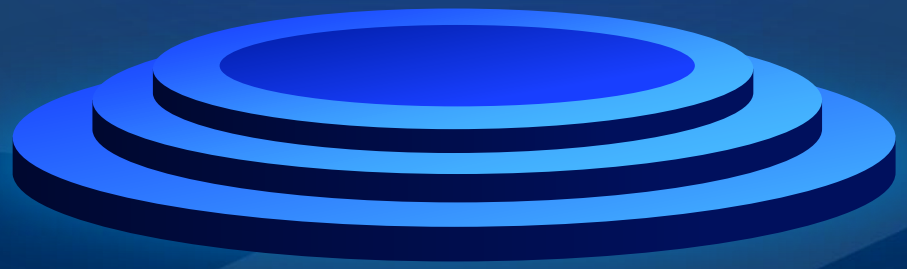
The Seasonal Business Reality

“It’s not what you make. It’s what you keep – and what you’ll need later.”

Business Axiom

Setting the Stage

“If your revenue dropped significantly tomorrow, how many months could your business continue operating?”



The Seasonal Business Reality

- Revenue may be seasonal, **but many business expenses continue year-round**
- Strong sales months can **make the business look healthier than its cash position really is**
- Money in the bank may already be committed **to taxes, payroll, inventory, or future expenses**
- The business also needs to provide enough cash **to support what the owner needs from it**
- Planning ahead **gives you more choices** when revenue doesn't go as expected

A good season isn't enough – the business has to carry you to the next one

Meet Alex

Alex owns a **seasonal retail business** on Orcas Island

- Sales are strongest **during the summer tourist season**
- Rent, insurance, and other business obligations **continue through the winter**
- Alex also depends on the business **to help cover household expenses**
- Spring inventory and reopening costs **arrive before peak-season receipts return**
- Alex believes **there's enough cash set aside to make it through winter**

Over the next few modules, **we'll find out if Alex is right**

See First Aid Workbook – Meet Alex

What We're Going to Find Out

As we work through Alex's business, **we'll answer four questions**:

- How much cash does the business **actually need**?
- How much does Alex need the business **to provide personally**?
- What happens if the slow season **is worse than expected**?
- How much should Alex **have set aside** before the season begins?

Then you'll ask the same questions **about your business**

Module Two:

Know What Your Numbers Are Telling You

Three Different Questions

Profit & Loss Statement

- Did the business make money over a period of time?
  - Shows revenue, expenses, and profit

Balance Sheet

- What does the business own and owe right now?
  - Shows assets, liabilities, and owner's equity

Cash Flow

- Where is the cash coming from and where is it going?
- Shows whether you have enough cash when you need it

Each tells you something different **about the health of your business**

Profit Isn't the Same as Cash

- A business can show a profit **and still be short on cash**
- Some cash coming in **may already be committed**
- Some expenses hit **before the revenue they help generate**
- Seasonal businesses can have **long gaps between strong revenue periods**
- **Timing matters as much as the amount**

Profit tells you **how you performed** – cash helps determine **whether you can keep operating**

Not All Expenses Behave the Same Way

Fixed

- Continue regardless of sales
- Rent, insurance, subscriptions

Variable

- Change as sales or activity changes
- Materials, merchant fees, some labor

Seasonal

- Arrive at particular times of the year
- Inventory, hiring, maintenance, reopening costs

Knowing when expenses occur **is especially important when revenue is seasonal**

What About Owner Pay?

- The business and household may be separate**, but the cash needs are connected**
  - Owner draws **aren't operating expenses for a sole proprietor**
  - Taking cash out of the business **changes what's available for future obligations**
  - Your cash plan **needs to account for both sides of the equation**

Your P&L may not show **what you personally need from the business**

Back to Alex

Before we decide whether Alex has enough cash for winter, **we need to know**:

- What cash is **actually available**
- What expenses **continue through the slow season**
- What expenses **change with sales**
- What larger **seasonal expenses are coming**
- What Alex needs the business **to provide personally**

A bank balance by itself **can't answer those questions**

Module Three:

Your Business Has to Support Two Things

Will Alex have enough cash to make it through winter?

Two Sets of Needs

The Business Needs Cash For

- Rent and utilities
- Payroll and taxes
- Inventory and supplies
- Insurance and debt payments
- Upcoming seasonal expenses

The Owner Needs Cash For

- Housing and utilities
- Food and transportation
- Healthcare
- Personal debt and obligations
- Other household needs

Both compete for **the cash the business generates**

How Much Does the Business Need to Provide?

For Alex:

- Essential household expenses are **$3,000 per month**
- Other reliable household income provides **$1,000 per month**
- The remaining $2,000 **has to come from the business**
- Over the six-month slow season, **that's $12,000**
- That cash requirement exists **whether or not it appears as an operating expense**

The business plan and the household budget **can't be viewed in isolation**

See First Aid Worksheet – Step 1: What does the household need?

Your Business

What does **your household need** from the business each month?

- What are your **essential household expenses**?
- What reliable income **comes from somewhere other than the business**?
- How much does the **business need to provide**?
- Does that amount change **during different parts of the year**?
- Is that amount **included in your cash planning**?

Your numbers are private – you won't be asked to share them

You can't know how much cash the business needs to carry **until you know what you need it to carry**

Module Four:

The Seasonal Cash-Flow Challenge

The business has needs – and so do you

Here's What We Know

- Alex begins October with **$24,000 in available cash**
- Tax money and other protected funds **have already been set aside**
- Cash receipts **will decline** during the slow season
- Business expenses **will continue even as sales decline**
- Alex needs **$2,000 per month** from the business for household expenses
- March includes **$3,000 in additional inventory and reopening costs**

$24,000 sounds like a lot – until we look at what has to happen before summer returns

Let's Forecast the Winter

Month	Cash Receipts	Business Payments	Owner Draw
October	$10,000	$9,000	$2,000
November	$7,000	$8,000	$2,000
December	$8,000	$8,000	$2,000
January	$4,000	$7,000	$2,000
February	$4,000	$7,000	$2,000
March	$6,000	$10,000	$2,000

Your task:

Calculate the monthly change in cash and Alex's ending cash balance

See First Aid Workbook – Step 2

What Happened?

Month	Net Change	Ending Cash
October	-$1,000	$23,000
November	-$3,000	$20,000
December	-$2,000	$18,000
January	-$5,000	$13,000
February	-$5,000	$8,000
March	-$6,000	**$2,000**

What jumps out at you?

Making it through the winter isn't necessarily the same as being financially prepared for it

See First Aid Workbook – Step 3 – answer questions

How Much Was Really Enough?

- Alex **doesn't run out of cash**
- Cash falls from **$24,000 to $2,000**
- The lowest balance occurs **just before the stronger season returns**
- Starting with **$22,000** would leave Alex at zero
- Starting with **$27,000** would preserve a **$5,000 cushion**
- Alex started with $24,000 – **$3,000 short of that cushion**

Your reserve target should reflect where you want to finish – **not just whether you can reach the finish line**

Now Look at Your Business

No calculations yet – **just identification**

- When does your **strongest revenue period end**?
- When does your **next strong revenue period begin**?
- What expenses continue **between those points**?
- What larger expenses arrive **before revenue picks back up**?
- What does your household **need from the business during that period**?
- What cash cushion **would make you comfortable**?

Your slow season has a **beginning, an end, and a cost**

5-Minute Break

Stand • Stretch • Refill

Module Five:

What If the Forecast Is Wrong?

Plans change – your numbers need to change with them

Let's Make One Change

What happens if Alex's winter sales are **20% lower than expected**?

- Business expenses **stay the same**
- Household needs **stay the same**
- Spring inventory and reopening costs **stay the same**
- Only **cash receipts change**
- Alex still starts October with **$24,000**

What happens to the cash **Alex thought would carry the business through winter**?

See First Aid Workbook – Step 4

A 20% Drop Changes the Picture

Original Winter Forecast

- Cash receipts: $39,000
- March ending cash: $2,000

20% Lower Receipts

- Cash receipts decline by $7,800
- February ending cash: $1,400
- March ending cash: **<-$5,800>**

A relatively small change in revenue **can create a much larger problem when cash is already tight**

When Would You Want to Know?

- In March, **when the cash is gone**?
- In February, **when there's only $1,400 left**?
- In the fall, **when there's still time to adjust**?
- During the summer, **when you can build a larger reserve**?

What choices might Alex have earlier that disappear later?

See First Aid Workbook – Step 4 action choices

Early Warning Creates Options

- Reforecast cash **using what you're actually seeing**
- Review the **timing of inventory and other purchases**
- Look for expenses **that can be reduced or delayed**
- Review **pricing, margins, and realistic sales opportunities**
- Revisit what **the household needs from the business**
- Talk with **creditors or advisors before there's a crisis**

The earlier you see the gap, **the more choices you usually have**

Stress-Test Your Assumptions

Ask yourself:

- What if sales are **lower than expected**?
- What if the slow season **lasts longer**?
- What if a major expense **is higher than planned**?
- What if the household **needs more from the business**?

A useful forecast does more than just show what you expect – **it helps you prepare for what could change**

Module Six:

Know Your Survival Number

How much does your business need to generate?

Start With Breakeven

Breakeven is the **point where revenue covers your business costs**

- Below breakeven, **the business is losing money**
- At breakeven, **the business is covering its costs**
- Above breakeven, **the business begins generating profit**
- Knowing the number **gives you a minimum sales target**
- For a seasonal business, **when you earn the revenue matters too**

Breakeven tells you the **minimum the business needs to produce** – not whether that's enough for you

Fixed Costs + Contribution

Fixed Costs

- Continue whether you make a sale or not

Variable Costs

- Costs that increase or decrease with sales

Contribution

- What's left from each sales dollar after variable costs
- That amount helps cover fixed costs and then profit

Contribution Margin % = (Sales − Variable Costs) ÷ Sales × 100

Breakeven Sales = Fixed Costs ÷ Contribution Margin %

Not every dollar of sales **is available to pay the bills**

Calculating Contribution Margin

What does **each sales dollar contribute**?

Sales revenue: **$10,000**

Variable costs: **$4,000**

Contribution margin: **$6,000**

Contribution margin percentage: **60%**

Formula: Contribution Margin % = (Sales − Variable Costs) ÷ Sales × 100

For every $1 in sales, **$0.60 remains to cover fixed costs and contribute toward profit**

A Simple Example

Suppose a business has:

- **$6,000** in monthly fixed costs
- A **60% contribution margin**
- $6,000 ÷ 60% = **$10,000**

The business needs **$10,000 in monthly sales to break even**

If the owner also needs $2,000 from the business each month, **is $10,000 in sales enough**?

See First Aid Workbook – Step 5: Calculate a Simple Breakeven

Breakeven Isn't the Finish Line

- Breakeven covers the costs **included in the calculation**
- It doesn't **automatically build an off-season reserve**
- It doesn't **automatically provide the owner's required income**
- It doesn't **create a cushion for unexpected expenses**
- It doesn't **fund future growth or major purchases**

Surviving, supporting the owner, and building a healthy business **are different targets**

Know Your Number

For your business:

- Do you know your **monthly fixed costs**?
- Do you know **approximately how much of each sales dollar remains after variable costs**?
- Do you know your **monthly breakeven sales**?
- Do you know how much the business **needs to provide you personally**?
- Do you know what you need to **set aside during your stronger months**?

It's okay if your answer today is "**I don't know yet**"

Knowing which number you need to find **is the first step toward managing it**

See First Aid Workbook – Now Think About Your Business

Module Seven:

Building the Off-Season Reserve

How much should you set aside while business is strong?

Your Reserve Has a Job

- Cover expenses **that continue during slower months**
- Help support the owner's **required household needs**
- Prepare for inventory and other costs **before revenue returns**
- Protect money **already committed to taxes and other obligations**
- Provide a cushion **when reality doesn't match the forecast**

A reserve **should be based on what the business will need** – not whatever happens to be left over

Start With the Slow Season

Estimate what you'll need **from the end of one strong season to the beginning of the next**

- Business expenses **during the slow period**
- Owner cash needs **during the same period**
- **Inventory, maintenance, hiring, or reopening costs**
- **Debt payments and other scheduled obligations**
- A reasonable **cash cushion**

Then subtract **expected cash coming in** during the slow season **from the total above**

Cash Needed Through the Slow Season – Expected Cash In = Reserve Need

See First Aid Workbook – Step 6 Estimate Your Reserve Needs

Alex's Reserve Target

From our **original forecast**:

- Alex starts with **$24,000**
- The business finishes March with **$2,000**
- Preserving a **$5,000 cushion requires $27,000**
- Alex's current reserve is **$3,000 short**
- A weaker winter **could increase that gap significantly**

The reserve target changes **when the assumptions change**

Building It During the Strong Months

Once you **know the target**:

- Determine **how much you already have available**
- Identify the **remaining reserve gap**
- Count the strong revenue months **available to build it**
- Set a **regular amount or percentage aside**
- Track progress **instead of waiting to see what's left**

Reserve gap: **$12,000**

Strong months remaining: **4**

Monthly reserve target: **$3,000**

Treat the reserve like a planned use of strong-season cash

See First Aid Workbook – Step 7 Build the Reserve

Keep the Money Honest

- Separate reserve funds **from everyday operating cash**
  - Keep tax and payroll money **protected**
  - Don't count available credit **as a cash reserve**
- Revisit the target **as actual results replace your assumptions**
  - Know what circumstances **justify using the reserve**

Money can only do one job at a time

Your Business

What would **your off-season reserve** need to cover?

- How long **is your slow period**?
- What **expenses continue**?
- What **will you need personally** from the business?
- What costs **arrive before strong revenue returns**?
- What cushion **do you want to maintain**?
- How much **must you set aside during the stronger months**?

Your reserve target **should come from your forecast** – not a guess

See First Aid Workbook – Step 7 Build the Reserve

Module Eight:

What Does This Mean for Your Business?

Turn what you've learned into what you need to know

What Do You Know Now?

Think about **your business** as you answer:

- When are your **strongest and weakest cash-flow months**?
- What expenses continue **when revenue slows**?
- How much does your household **need from the business**?
- What costs arrive **before your stronger season returns**?
- How much cash do you need **to carry you through**?
- What assumptions in your forecast **could change**?

You don't need every answer today – **you should know which answers you need**

See First Aid Workbook – M8: Apply it to your business worksheet

Find the Number You Don't Know

Which number would help you **make better decisions right now**?

- Monthly fixed costs
- Contribution margin
- Breakeven sales
- Household cash requirement
- Slow-season cash need
- Off-season reserve target

Pick one

Start with the number **that would make your next decision clearer**

Test One Assumption

What are you **currently assuming** about the months ahead?

- Sales will reach **a certain level**
- Expenses will **stay about the same**
- Customers will return **when expected**
- Inventory or other costs **won't increase**
- The household **won't need more** from the business
- The reserve **will be enough**

What would happen **if that assumption were wrong**?

An assumption becomes useful **when you know what you'll do if it changes**

Your Next Step

Before Workshop 2:

Choose **one thing to do**:

- Find one financial number **you don't currently know**
- Review your **last 12 months of revenue and expenses**
- Estimate **what your household needs** from the business
- Identify your **lowest projected cash month**
- Estimate an **off-season reserve target**
- Stress-test **one assumption** in your forecast

One useful action is better than **a financial to-do list you never start**

One Question to Bring Back

What did today's workshop make you **curious or concerned about in your own business?**

Bring that question with you **to Workshop 2**

We'll use what you learned today **to build a routine for**:

- Seeing changes **earlier**
- Knowing **what's coming**
- Recognizing **warning signs**
- Deciding **when to act**
- Knowing when **to ask for help**

Workshop 1 **helped you look ahead** – Workshop 2 will **help you keep watch**

Closing Thought

The goal isn't to **predict the future perfectly**…

It's to see trouble **early enough to have choices**

Know what's happening → Know what's coming → Know when to act

Questions? Comments? Thoughts? Opinions?

Thank you for investing your time today

I hope this gives you practical tools to use

Please fill out the course evaluation and give to me

RESOURCES / NEXT STEPS

SBDC / OCRC Resources

Elisabeth / OCRC:

- Household budgeting
- Debt and financial pressures
- Financial counseling
- Appropriate local resources and support

Steve / SBDC:

- Individual business advising
- Cash-flow and financial analysis
- Breakeven and pricing discussions
- Business planning
- Financing/lender readiness when appropriate

Steve McCaslin
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Workshop 2

Tuesday, October 27th at 5:30

About the **SBDC**…

About the Washington SBDC

Helping Washington Businesses

Grow & Succeed



No Cost, Confidential Business Advising



No Cost Market Research



Access to Resources



No or Low-Cost Training

How We Work With You

- We help you **understand** the situation and your options
- We **ask questions** rather than make decisions for you
- We can help you work through your numbers **privately**
- **You decide** what makes sense for your business

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