First Aid for Small Business

Participant Copy

Can the Business Carry the Owner Through Winter?

Purpose: Estimate the cash needed to keep a seasonal business operating and cover the owner's essential household bills.

Module 1: Meet the business owner

Alex owns a seasonal retail shop on Orcas Island. Sales are strongest during the summer, but rent, insurance, and other obligations continue throughout winter.

For this exercise, Alex operates as a sole proprietor. Money transferred for personal expenses is recorded as an **owner's draw**, separate from business operating expenses.

On October 1, Alex has **$24,000 available for winter operations and owner draws**, after setting aside money already owed for taxes and other outstanding obligations. That protected money is not included in the $24,000.

Module 3: Step 1: What does the household need?

Alex's essential monthly household budget is:

Household expense	Monthly amount
Housing	$1,500
Utilities and heat	$250
Food and household supplies	$500
Transportation	$250
Health insurance and medical expenses	$300
Personal debt payments	$200
Total household expenses	**$3,000**
Other reliable household take-home income	**– $1,000**
Amount needed from the business each month	**$_____**

Discuss: What happens if Alex plans only for the shop's bills and forgets the household's needs?

Module 4: Step 2: Complete the winter cashflow forecast

Business cash payments below include operating expenses, inventory purchases, business debt payments, and applicable tax payments. They exclude owner draws.

March includes **$3,000 in additional inventory and reopening costs** before the busy season.

	October	**November**	**December**	**January**	**February**	**March**
Cash received from customers	$10,000	$7,000	$8,000	$4,000	$4,000	$6,000
Business cash payments	$9,000	$8,000	$8,000	$7,000	$7,000	$10,000
Owner draw for household needs	$_____	$_____	$_____	$_____	$_____	$_____
Net cash change	**$_____**	**$_____**	**$_____**	**$_____**	**$_____**	**$_____**
Beginning available cash	$24,000	$_____	$_____	$_____	$_____	$_____
Ending available cash	**$_____**	**$_____**	**$_____**	**$_____**	**$_____**	**$_____**

Calculate:

- Net cash change = Customer receipts − Business cash payments − Owner draw
- Ending cash = Beginning cash + Net cash change
- Carry each month's ending cash forward to the next month's beginning cash.

A negative result identifies a funding gap. It does not mean the business can continue paying bills without taking action.

Module 4: Step 3: Make a decision

1. In which month does available cash first fall below **$5,000**? _____
2. In which month does the business run out of available cash? _____
3. How much starting cash would Alex need to finish March with **$0**? _____
4. How much starting cash would Alex need to finish March with a **$5,000 cushion**? _____
5. Compared with the existing $24,000, how much additional cash is needed to preserve that cushion? _____

Discuss: The $5,000 cushion is an exercise assumption. What would determine an appropriate cushion for your business?

Module 5: Step 4: What if winter is weaker than expected?

Suppose customer receipts are **20% lower every month**, while business payments and household needs remain unchanged.

- Total original customer receipts for October–March: $_____
- Reduction in receipts: $_____
- Revised March ending cash: $_____

Module 5: Step 4 (cont'd) Choose two actions Alex could investigate now:

☐ Review inventory quantities and purchase timing.
☐ Identify business expenses that can realistically be reduced.
☐ Review household spending and possible additional household income.
☐ Explore additional sales, accounting for the cost of generating them.
☐ Discuss payment arrangements before bills become overdue.
☐ Meet with an SBDC advisor or bookkeeper to revise the forecast.

Our first action: _____

When we would act: _____

What we need to know first: _____

Module 6: Step 5: Calculate a Simple Breakeven

A business reaches breakeven when sales cover the costs included in the calculation. But breakeven doesn't necessarily provide enough cash to support the owner or build reserves.

Let's work through an example.

A small business has:

inancial information	Amount
Monthly sales	$10,000
Monthly variable costs	$4,000
Monthly fixed costs	$6,000
Monthly cash needed by the owner	$2,000

First: Calculate the Contribution Margin

Contribution margin tells us how much of each sales dollar remains after variable costs to cover fixed costs and contribute toward profit.

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

Using our example: ($10,000 − $4,000) ÷ $10,000 × 100 = **60%**

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

Next: Calculate Breakeven Sales

Breakeven Sales = Monthly Fixed Costs ÷ Contribution Margin %

Using our example: $6,000 ÷ 0.60 = $_____

Questions:

1. How much must the business sell each month to cover its $6,000 in fixed costs? $_____
2. At that sales level, is there enough left to provide the owner with $2,000? _____
3. Assuming the $2,000 owner requirement is additional to the costs already included, how much total monthly sales would be needed to cover both fixed costs and the owner's cash requirement? $_____

Now Think About Your Business

My planning question	My estimate
What are my monthly fixed costs?	$_____
What are my monthly sales?	$_____
What are my monthly variable costs?	$_____
What is my contribution margin percentage?	_____%
What are my estimated monthly breakeven sales?	$_____
What additional cash must the business provide for my household?	$_____

The number I need to find or verify:

Module 7: Step 6: Estimate Your Reserve Need

Your off-season reserve should reflect what the business and household will need before strong customer receipts return.

Start with your expected slow-season cash flow.

My planning question	My estimate
Total business cash payments during the slow season	$_____
Total owner cash needed during the slow season	$_____
Additional reopening or pre-season costs not included above	$_____
Total cash needed	$_____
Less: Expected customer cash receipts during the slow season	− $_____
Cash needed from reserves	$_____
Add: Desired ending cash cushion	+ $_____
My reserve target	$_____
Less: Cash already available for the slow season	− $_____
Additional cash I need to build	$_____

Do not count the same expense twice. Exclude money already committed to taxes, payroll, or other obligations from available reserve cash.

Module 7: Step 7: Build the Reserve

Once you know your reserve gap, decide how much you need to set aside during your stronger months.

Example:
A business needs to build an additional $12,000 reserve and has four strong months remaining.
$12,000 ÷ 4 months = $3,000 per month
Now Your Business:
My additional reserve need: $_____
Number of strong months remaining: _____
Amount I need to set aside each month: $_____

Module 7: Step 8: Stress-Test Your Reserve

What happens if:

- Sales are 20% lower than expected?
- The slow season lasts an additional month?
- An unexpected business expense occurs?
- Household expenses increase?

Which assumption would have the greatest impact on my reserve?
One action I can take to improve my reserve position:

Module 8: Apply it to your business

My planning question	My estimate
What does my household need each month?	$_____
What reliable take-home income comes from other sources?	$_____
What must my business provide to close the household gap?	$_____
What cash is available after protecting money already committed?	$_____
What is my lowest projected cash month?	_____
What spring expenses arrive before busy-season receipts?	_____

My next step: _____

Household figures can remain private. Include personal taxes and irregular household expenses in your own plan if they are not already covered. Confirm the appropriate treatment of owner compensation with your advisor.