

Innovative CFO Solutions

Tips for Managing In Turbulent Times

Tips Issue 3

Now, more than ever, it is important to have a financial plan for your business. This issue provides tips on best practices for preparing your 2009 financial plan.

Ray Reher will be presenting a seminar entitled Managing Business Cash Flow in a Turbulent Economy on November 6, 2008 at the Greater Tampa Chamber of Commerce

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A recent Associated Press article cited two of Silicon Valley's best known venture capital firms as having advised companies in their investment portfolios to redraw their business plan for 2009 in order to create a bigger cash cushion that will allow them to weather economic conditions expected for 2009. Now, more than ever, it is important to have a financial plan for your business. Regardless of how you have or have not used financial plans in the past, it is imperative that you prepare a well thought out, meaningful plan for 2009, and measure your operating results against that plan with regularity.

Because financial plans are not something new to most of you, we won't rehash all of the basics of preparing a plan. What we will cover are tips on best practices for preparing a plan for 2009. The emphasis is preparing the plan in substantial detail, and examining data and assumptions at the micro level.



Preparing the Plan for 2009

Following are tips on best practices for preparing your 2009 financial plan.

Use Realistic and Verifiable

Assumptions. Your industry and business have distinct drivers that influence your day to day operations. Tie your plans and projections to these industry drivers. Have your plan reflect the best thinking on the environment you will be operating in next year, not your best guess or hopes for the

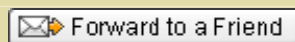
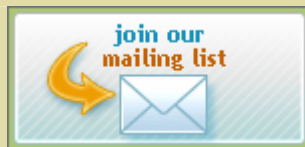
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coming year.

Document All the Assumptions.

Comparing actual results to the plan should start with reviewing key assumptions in the plan. What has changed and what is the impact of these changes? Remember, adhering to the plan is not what this is about. It is about measuring your business' progress to that plan, determining changes in key assumptions, business drivers, and the operating environment, and adjusting the course of the business to respond to these changes.

Make Planning a Participative Process.

The best plans are those in which key personnel participate in the preparation of the plan. Assign one staff member the responsibility of keeping everyone on task as they prepare their portions of the plan and have that person facilitate plan preparation meetings.

It's All About the Cash. Projecting earnings is not enough. You will need a projection prepared on the same basis that you report your monthly financial results - likely on the accrual basis - in order to be able to compare your actual results to the plan. But this plan is all about cash - cash flow and cash balances. Convert your reporting basis plan to a cash basis plan. Give careful consideration to your assumptions about the timing of collections from customers, the build of inventory or supplies to support sales, the impact of non-cash expenses, and the impact of principal payments on loans. Other items to consider are capital expenditures and other items that impact cash but do not appear in the monthly P&L.

Revenue Drives the Plan. The revenue projection will drive every other aspect of the plan. It won't be sufficient in today's environment to do a macro level assessment and projection of sales, or even a business segment level projection. Go to the customer level. What are your expectations from customers for 2009? How is their operating environment impacting how they are doing business? And ultimately, how does all of this affect how they will do business with you?

It's a Great Time to do Your Homework.

Change is coming more rapidly than ever. Pricing pressures are hitting your selling prices as well as your material and delivery costs. Business segments are not being impacted uniformly. There is an urgent need to dig deeper - to the micro level. Don't just project data, but analyze the impact of each business change as part of this process.

Don't Forget the Balance Sheet. Working capital is under severe pressure for most businesses today. Project a monthly balance sheet in addition to your income statement. The balance sheet projection will provide data about accounts receivable, inventory, accounts payable and the like. Sound cash management requires reviewing each of the elements of working capital using metrics which we will discuss in the next issue of Tips.

Critique the Plan. Have key members of your team review and critique the plan. You are looking for realism and objectivity in the assumptions and a set of numbers that reflects those assumptions. Does the plan truly reflect the anticipated impact of these assumptions and how the business will respond? Consider bringing in a knowledgeable trusted advisor to facilitate this critique.

Set a Schedule for Reviewing Actual Results Versus the Plan. Fix a meeting time for the monthly financial review and adhere to it. A regular, predictable rhythm to these reviews emphasizes the importance of this activity and the need for team members to be prepared for this meeting.

We hope that you find this information practical and of value in managing your business in these turbulent times.

Innovative CFO Solutions provides the financial management that growing small and medium size businesses need at a cost they can afford. Our solutions to client challenges are customized to the needs of each of our clients. And we right size our work to fit the

budget of each company that we are privileged to serve.

Whether your business faces the challenges of increasing economic pressures, or it has identified a solid path for growth, your team needs an experienced financial member to help you achieve your goals. We can be that team member - at a cost you can afford.

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Please feel free to forward this to associates that might benefit from this information.

Sincerely,

Ray Reher
Innovative CFO Solutions, Inc.

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