



# Teaching Cash Planning

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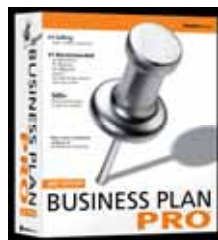
## Logistics

*www.bplans.com*

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- Planning, Startups, Stories  
<http://blog.timberly.com>
- Presentation notes/slides:  
<http://www.timberly.com/presentations>  
(sometime next week 😊)

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# Run Silent Run Deep Run Out of Money

The drowning season

Byline: Eric Florip The Register-Guard

Lane County marine patrol deputy Paul Vitus spearheaded the search for the body of a teenager who was presumed to have drowned in the Willamette River with several other rescuers Wednesday evening after a flipped raft just before 7 p.m.

A total of seven young people were rescued from a snag near Bellingham Lake on Wednesday, but one person was trapped under the frigid water, before rescuers even reached the site.

"I think the thing that saved them was their jackets. If they hadn't, they would have died."

**StatesmanJournal.com**  
SALEM, OREGON  
NEWS | NATION | WORLD | SPORTS | BUSINESS | TRAVEL | NOTICES | HELP | SEARCH | TOP RATED | MOST VIEWED | CALENDAR

**news**  
SEARCH [input] [GO] PRINT THIS STORY LETTER TO THE EDITOR EMAIL NEWS

**Search suspended for teen who drowned in Willamette River**  
RUTH LARO  
Statesman Journal  
August 1, 2007  
Officials suspended efforts late Tuesday night to recover the body of a swimmer who was presumed to have drowned in the Willamette River near Wallace Marine Park. Diving crews will resume at daylight, officials said.

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The drowning season



## Double Whammy



- So important
- So completely unintuitive

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Sales doubles, cash troubles

Credibility: this is a problem

How to get that across

Believing the weather forecast

Believing the advisors

Believing the cash problem

Three main things



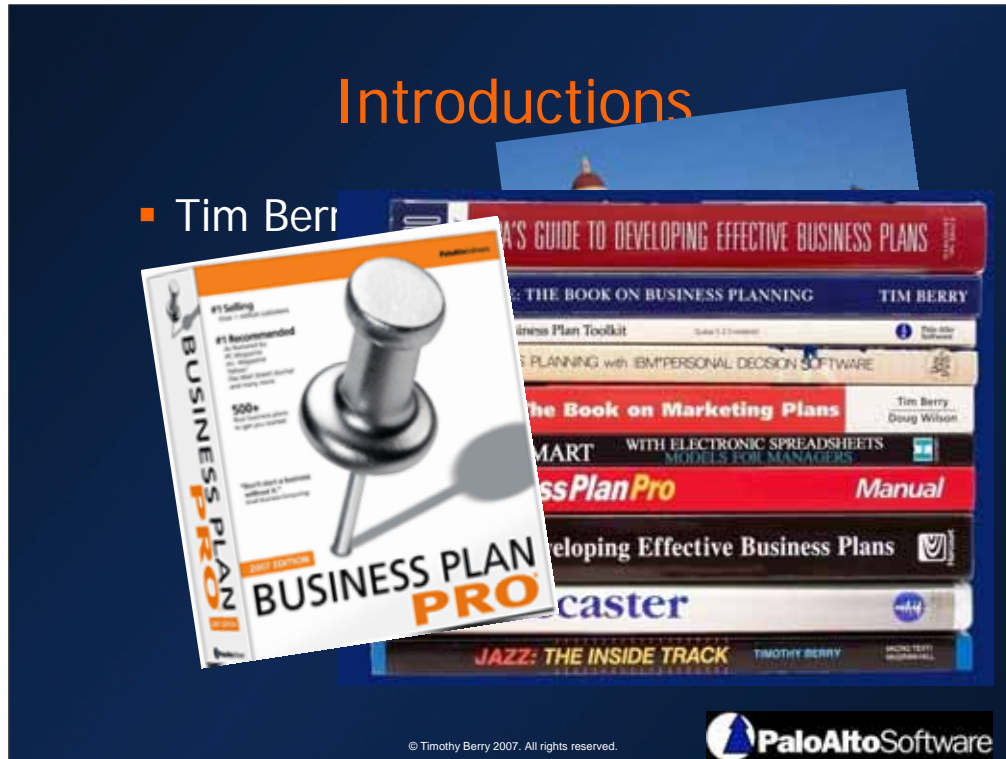
## Goals, Agenda, Groundrules



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Minutes	Topic	Discussion
10	Introduction	Speaker, participants, goals and objectives.
15	Principles	Planning vs. accounting, Cash vs. accrual, underlying financial principles
10	Wizards and Assumptions	The plan setup wizard determines some of the most important assumptions
20	Three Critical Factors	Sales on credit and accounts receivable, inventory management, payables management
15	Beginning Cash	How do I know how much cash I need, where do I put that, and where can I check and follow up on that?
10	Ongoing Cash Adjustments	Where do I put cash adjustments indicated by my plan to deal with cash-short periods?





#### Tim Berry bio:

President, Palo Alto Software

Principle author, Business Plan Pro

Former VP, Creative Strategies International

Co-founder, Borland International

Planning consultant to Apple Computer, 82-94

Stanford MBA ('81)

Mexico City '71-79

Published books include

Hurdle: the book on Business Planning

CPA's Guide to Developing Effective Business Plans

On Target: the Book on Marketing Plans

[www.timberry.com](http://www.timberry.com)

#### Repeat Venture Contest Judge

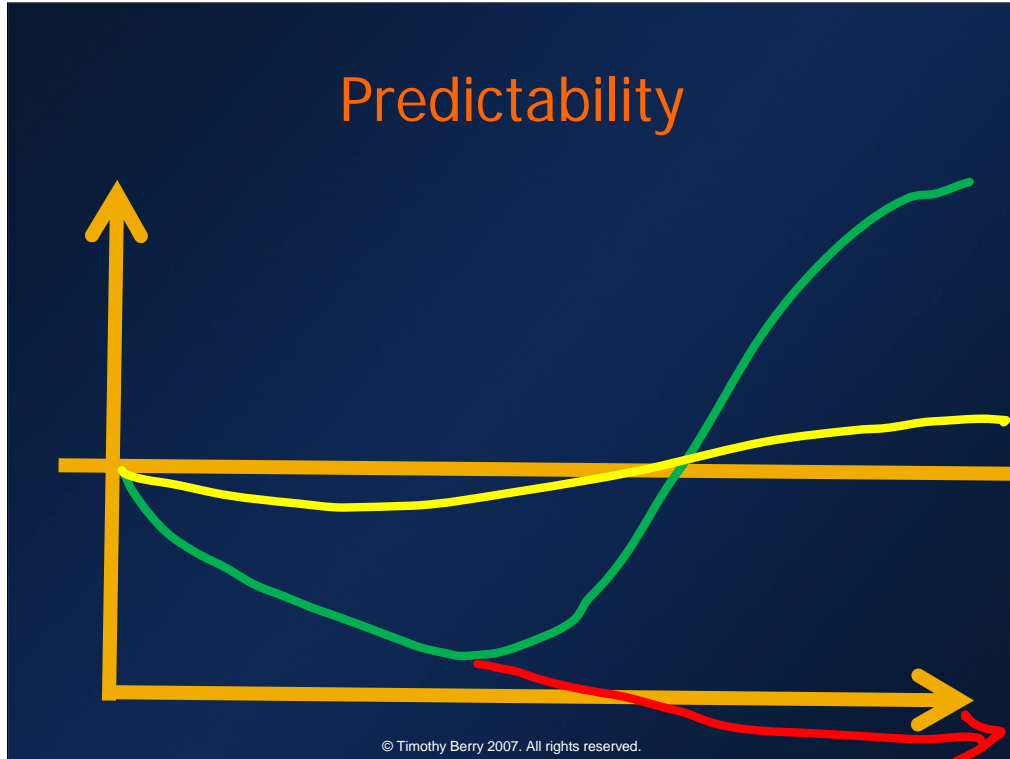
University of Oregon New Venture Competition (7 times)

University of Notre Dame McClosky competition (4 times)

University of San Francisco

Carrot Capital \$3 million venture contest





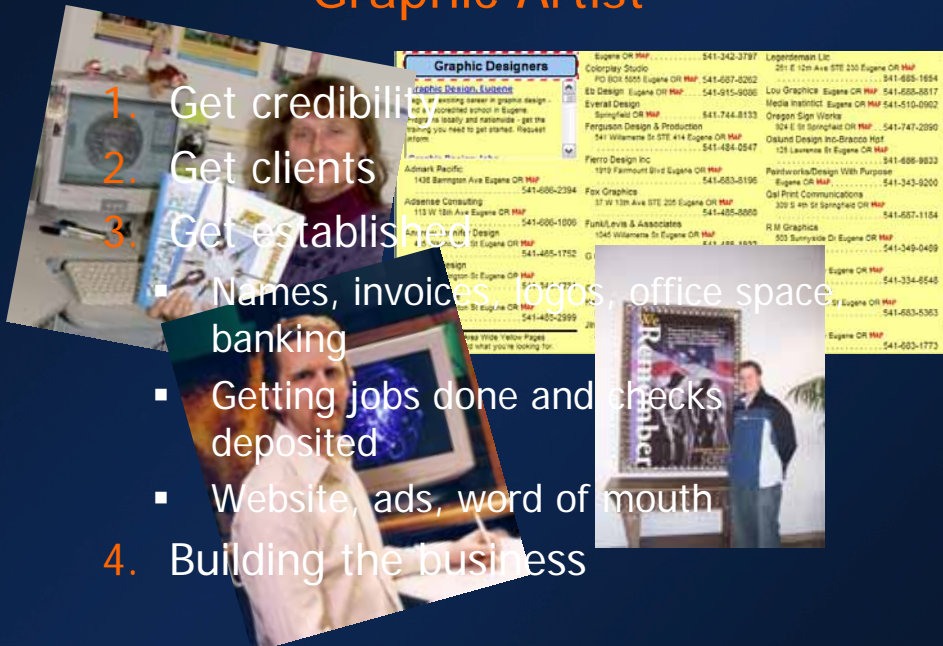
## Three Sample Cases

1. The graphic artist, web designer, programmer
2. Local bar & grill
3. High-tech consumer product



# Graphic Artist

1. Get credibility
2. Get clients
3. Get established
  - Names, invoices, logos, office space, banking
  - Getting jobs done and checks deposited
  - Website, ads, word of mouth
4. Building the business



## Louie's Bar & Grill



1. Start-up assets
2. Legal work, founders'
3. Muster the money
4. Select a location
5. Get it fixed up
6. Hire the extra people
7. Get the word out



## High-Tech Consumer Product

- 
- Get the key people together and agreed
  - Develop the plan
  - Get the seed investment
  - Create the legal entity
  - Develop the product (design, prototype)
  - Develop the business (locations, people)
  - Develop the marketing (channels, packaging)
  - First round venture money
  - Marketing launch
  - Product launch



## Fearsome Twosome

- Receivables



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## Fearsome Twosome

- Inventory



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[Cash flow quick tools](#)

# TEACH BY EXAMPLE

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**Planning, Startups, Stories**  
Tim Berry writing on business plans, the business planning process, entrepreneurship, starting and running a business, growing a business, and having a life while you do it.

[- The MBA Buzzwords Compressed](#) | [Main](#) | [Not Your Typical Myers-Briggs Personality Type](#)

### Sales doubles company troubles

*[This is based on a true story. I've changed only names. --Tim]*

Leslie is 15 years older now, approaching 50, still running a network consulting business with Terry, still married, and still living in the same West Coast university town. He's happy with the way things ended up, but I can see the wrinkles in his face and the gray in his hair as he talks about that time in the mid 1990s when sales doubled. Like the opening line of *A Tale of Two Cities*, "It was the best of times, it was the worst of times."

Flash back to 1994. Mozilla was available and the World Wide Web was beginning to reach a few commercial users. FedEx had a site, so did Disney, and people were starting to catch on. Clinton was president. The dot-com

<http://blog.timberly.com>  
**Sales Doubles Company Troubles**  
<http://blog.timberly.com/2007/08/sales-doubles-c.html>

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**Planning, Startups, Stories**  
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**Run Silent Run Deep Run Out of Money**

I'm posting this today with a double purpose, I admit, because in about two hours I'm going to be giving a workshop at the annual Small Business Development Center convention in Denver, on the topic of "Teaching Cash Flow."

The win here, I think and hope, is to distinguish between planning cash flow and teaching cash flow. Those are separate problems.

The most important problem is getting people who haven't been running companies to believe that cash flow and profits are different. That's just so important because it doesn't add up. It isn't believable.

I developed business planning software originally as templates for business planning clients to deal with the following amazingly typical exchange:

Me: so if you grow faster then you'll need to get more financing.  
They: no, that can't be true, because we're profitable. We make money with each sale, so the more we sell, the more we can...

<http://blog.timberly.com>  
**Run Silent Run Deep Run Out of Money**  
<http://blog.timberly.com/2007/09/run-silent-run-.html>

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*Chart of Accounts*

*Receivables financing  
Working capital funding  
Excess cash*

**TEACH BY CASES**

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## Business Plan Pro Cases

- Metolius:
  - Check cash
  - Reset assumptions to sales on credit
  - Check cash; solve the problem
- AMT
  - Check cash
  - Change collection days
  - Check cash

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# Summary, Conclusions, Questions, Discussion

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## Background on the Financial Model

The screenshot shows a web browser window with the address <http://www.timberly.com/fm/>. The page title is "The Business Plan Pro Financial Model". The main content area contains the following text:

The illustration below shows the integrated Business Plan Pro financial model. We've been working with this model since the early 1980s. It links a business' main financial statements into a logical system that facilitates forecasting.

**FIGURE 1: THE BUSINESS PLAN PRO FINANCIAL MODEL**

The diagram illustrates the integrated Business Plan Pro financial model. It shows the following components and their relationships:

- Sales Forecast** (top left) feeds into the **Income Statement** (middle left).
- Personal Plan** (bottom left) also feeds into the **Income Statement**.
- The **Income Statement** feeds into the central **Cash Flow** box.
- Cash Flow** feeds into the **Balance Sheet** (middle right).
- Starting Balances** (bottom right) feeds into the **Balance Sheet**.
- The **Balance Sheet** feeds back into the **Income Statement**.
- Depreciation** (top right) and **Interest** (bottom right) are shown as feedback loops from the **Balance Sheet** back to the **Income Statement**.

*The Business Plan Pro financial model depends on standard financial principles that link the Income statement (Profit and Loss) to the Cash Flow.*

<http://www.timberly.com/fm/>

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This information is background information – not required by any means, more for the curious  
Detailed background on the financial model is available on the web

The site is:

<http://www.timberly.com/fm/>



# Understanding Start-up Numbers

Start-up	
Legal	\$500
Stationery, etc.	\$250
Brochures	\$250
Other	\$0
Insurance	\$0
Rent	\$0
Research and Development	\$0
Expensed Equipment	\$0
Other	\$0
<b>Total Start-up Expenses</b>	<b>\$1,000</b>
Start-up Assets	
Cash Required	\$22,200
Cash Required	\$0
Cash Required	\$0
Other Current Assets	\$0
Long-term Assets	\$19,800
<b>Total Assets</b>	<b>\$42,000</b>

Start-up Funding	
Current Borrowing	\$0
Long-term Liabilities	\$0
Accounts Payable (Outstanding Bills)	\$0
Other Current Liabilities (interest-free)	\$0
<b>Total Liabilities</b>	<b>\$0</b>
Capital	
Planned Investment	
Owner	\$0
Investor	\$0
Additional Investment Requirement	\$43,000
<b>Total Planned Investment</b>	<b>\$43,000</b>
<b>Loss at Start-up (Start-up Expenses)</b>	<b>(\$1,000)</b>
<b>Total Capital</b>	<b>\$42,000</b>
<b>Total Capital and Liabilities</b>	<b>\$42,000</b>

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# Understanding Start-up Numbers

Start-up Expenses		Start-up Financing	
Legal	\$800	Investment	\$15,000
Stationery	\$2,500	Loans	\$800
-----		-----	
Total	<b>\$3,300</b>	Total	<b>\$15,800</b>
Start-up Assets		Capital and Liabilities	
Cash	\$4,500	Liabilities	\$800
Inventory	\$8,000	Capital	\$15,000
-----		Loss at start-up	<b>(\$3,300)</b>
Total	\$12,500	-----	
Need to finance	<b>\$15,800</b>	← \$12,500 →	
	(\$3,300 + \$12,500)		

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## Business Plans vs Tax Accounting



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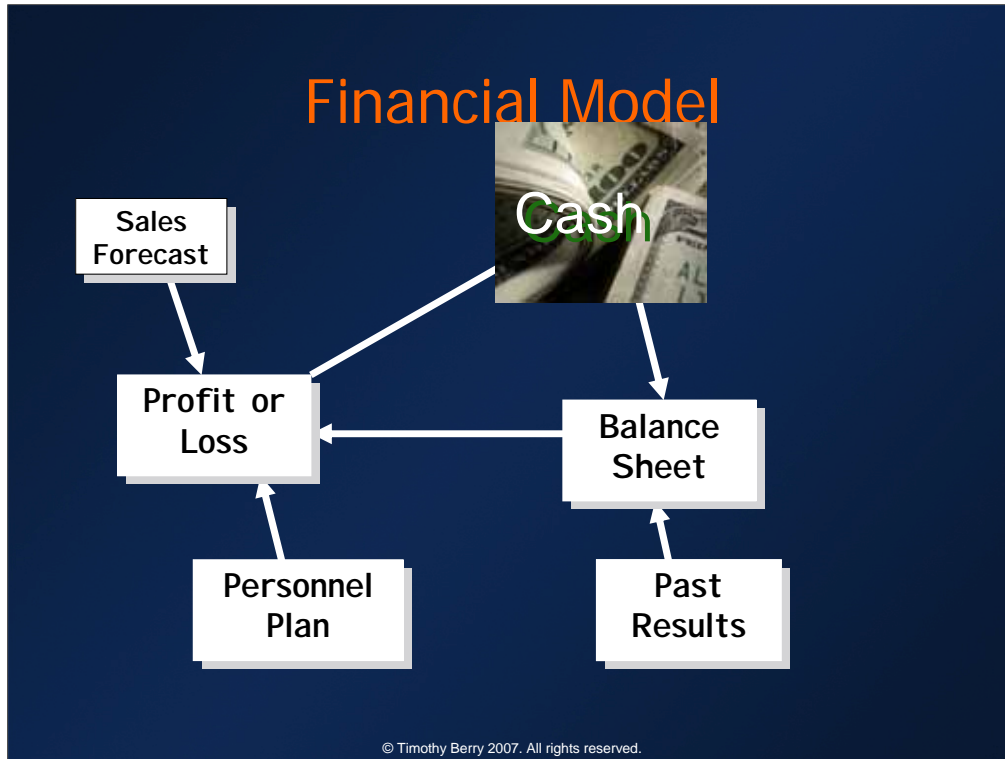
## Business Plans vs Tax Accounting

- Accounting: today backwards into the past
- Objective is reporting to IRS, SEC, etc.
- Details are essential
  - Depreciation in detail
  - Assets in detail
  - Loan payments and interest
  - Graduated tax rates
- Reporting responsibility for infinite details
- Planning: today forwards into the future
- Objective is decision making
- Powerful simplifying assumptions:
  - Depreciation
  - Assets
  - Taxes
  - Loans and interest
- Where is the uncertainty:
  - Sales forecast vs.
  - Detailed depreciation
  - Detailed taxes

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Critical:

Profits are not cash

This matters because it can hurt so badly

Examples

I learned the hard way with channels

You don't need to do it – but know it!

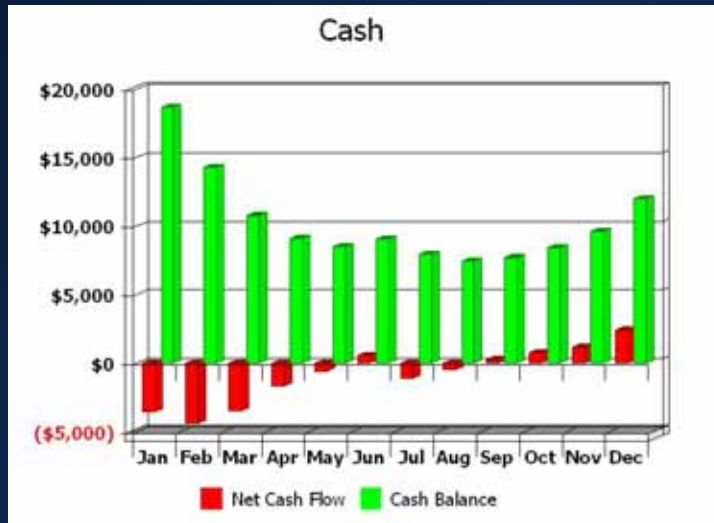
For more information:

<http://www.timberly.com/fm/>

That is a detailed explanation of the financial model.



## Cash Flow Power Tools Specifics

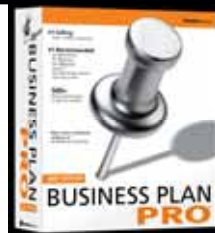


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## Cash Flow Power Tools Specifics

- Accounts Receivable
- Inventory
- Accounts Payable
- The Cash Flow Table
- The Cash Chart

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## Solving the Core Problem

Time	Activity	Comments
10	Teaching!	Teaching, not planning: Problems
10	Double Whammy	The Willamette
10	Introductions	Me, you, students, clients
10	Class Distinctions	Different cares, different needs
10	Fearsome Twosome	Plus a third in the bushes
15	Teach by example	Instant cash demos
15	Teach by stories	Look for the sweet spot
30	Teach by cases	Metolius, AMT, key elements

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