SCALE YOUR
FEEDING GROWTH
PROGRESSIVE FOOD BUSINESS

Dealing With COVID-19 Cash Flow Disruptions

Step 1: Know Your Numbers

This can be a daunting time to look at your financial numbers, but you shouldn't ignore them.

Step 2: Address Your Costs

Rent Expense

Cost of Labor

Inventory Carrying Cost

Establish Your Burn Rate

Step 3: Alternative Sources of Funding

Dilutive Financing

Give up some shares/ownership to finance

Non-Dilutive Financing

Hold 100% ownership

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FEEDING GROWTH: DEALING WITH COVID-19 CASH FLOW DISRUPTIONS

Every business has felt the effects of COVID-19 in some form. Feeding Growth focuses on helping to grow sustainable food companies. Financial sustainability is a core component of a sustainable company. Our hope is this document assists you in managing your businesses cash flow disruptions and return to financial sustainability.

Step 1: Know Your Numbers
This can be a daunting time to look at your financial numbers, but you shouldn't ignore them. If you need a quick refresher on the most important formulas (accounting equation, breakeven formula, cash ratio), check out this great 5 minute read from Quickbooks before continuing on.

Step 2: Address Your Costs
Within the food industry, typically the two biggest costs are:
Rent Expense
Rent expense is listed as a fixed operating cost. Are you utilizing all your space still? Are there ways to cut this cost? **Tip**: Everyone's situation has changed – if possible, consider sharing space to save on this cost!

Cost of Labor
The cost of labor includes all costs related to your employees and contractors. Evaluate which costs are fixed vs. variable. With current sales, can you support your current staffing levels? **Tip**: Have a conversation with your employees to see their thoughts on work (e.g. Would they be interested in part-time or a short-term leave?)

Next Biggest Cost – Inventory Carrying Cost
Inventory carrying cost is an expense that is related to holding and carrying unsold goods. It is the third biggest cost that follows rent expense and cost of labor. Reducing this cost can free up money for cashflow. **Tip**: Either slow down production or find more/new sales channels. Make sure you note the effect this will have on your labor.

Establish Your Burn Rate (if you are not currently profitable)
Burn rate is a measure of negative cash flow per month. For new companies, burn rate captures how fast the startup capital is running out. Gross burn measures your total expenses per month. Net burn measures your losses per month. It is imperative to know when you will run out of money!! Investors and banks will need to know this, as it adds a sense of urgency to the situation.

Step 3: Alternative Sources of Funding
Dilutive Financing (also called Equity Financing)
Dilutive financing is when you give up some shares/ownership of your company to finance, such as selling shares to angel investors, selling shares to venture capital firms, or equity crowdfunding. Essentially, you pay the investors a portion of your profit as dividend.

Pros: Dilutive financing does not require collateral or fixed payments. Dividend payout offers firms more flexibility. Equity investors want the business to be successful – they may share contacts, resources and advice.
Cons: You must share profits with equity investors. As a result, you may lose partial control or ownership of your business to equity investors.
Tip: Finding the right equity investor is key. Assess your weaknesses and if an investor complements that weakness then they could be a great fit.

Non-Dilutive Financing
With non-dilutive financing, you hold 100% ownership of your company. Non-dilutive financing methods include loans from banks, grants, reward-based crowdfunding, product presale, friend and family support, etc.

Pros: Investors/lenders do not share business profits or ownership. The lender has no say in the operation of the business. Debt interest is tax deductible. Grants are often considered "free money".
Cons: Debt Financing may increase financial risk. Debt financing usually requires the repayment of the money plus interest. Grants often require a time commitment for reporting.

Federal Government Programs
While there are many programs available, we've highlighted 3 of the biggest below:

1. Canada Emergency Wage Subsidy (CEWS) – Labor Help
As a Canadian employer whose business has been affected by COVID-19, you may be eligible for a subsidy of 75% of employee wages for up to 24 weeks. The government announced proposed changes to the CEWS on July 17, 2020.

Pros: This wage subsidy will enable you to re-hire workers previously laid off as a result of COVID-19, help prevent further job losses, and better position you to resume normal operations following the crisis.
Cons: In order to qualify for the wage subsidy in respect of a claim period, an eligible employer must meet the conditions under "FAQs - Technical guide" on the website.

2. Canada Emergency Commercial Rent Assistance (CECRA) – Rent Help
This program provides relief for small businesses experiencing financial hardship due to COVID-19. CECRA will cover 50 % of the rent, with the tenant paying up to 25 % and the property owner forgiving at least 25 %.

Pros: August 2020 extension is coming soon, and if you have previously been approved, you automatically re-qualify, and no additional documents are required.
Cons: Property owners must notify each of their tenants in writing once they have requested the extension on their behalf. Property owners can only opt-in once and no new tenants can be added.

3. Canada Emergency Business Account (CEBA) – Quick Cash
This program provides interest-free loans of up to $40,000 to small businesses and not-for-profits, to help cover their operating costs during a period where their revenues have been temporarily reduced.

Pros: If you repay the balance of the loan on or before December 31, 2022, this will result in loan forgiveness of up to 25% (up to $10,000).
Cons: Inaccuracies could lead to legal consequences.

Provincial Government Programs (B.C.)
British Columbians affected by the COVID-19 pandemic are able to access income support, tax relief and direct funding for people, businesses and services. Some business specific examples are B.C. government strengthened CECRA, and Provincial Payment Deferral.

Municipal Government Programs
Municipal government follows federal and provincial government programs. These programs may be more responsive and municipality dependent (i.e. City of Vancouver). If your business is outside of Vancouver, find your local programs by visiting your municipal government's website.

Why are Government Programs Beneficial?
Pros: Government programs do not dilute companies' ownership. The government programs generally have low default risk. Businesses can obtain stable cash flow. BDC offers a great resource document **which is continuously being updated with new and changing information**.
Cons: Government programs can be time-consuming and usually come with restrictions and guidelines.