FINANCE

The financial apsect of NB can be analyzed in terms of three basic stages: 1) the development of basic bookeeping practices (manual); 2) the application of the computer to our bookeeping practice; and finally, 3) conscious economic planning through the use of our computerized tools. In addition, financing and the use of credit are two aspects of our financial practice that took on a key role as the business matured. The development of these different aspects represent in a material way NB's practical understanding of the basic laws of capitalist development.

In the area of finance, the early years of NB were spent developing the basic financial systems and concepts needed for any small business. A bookeeping system and a basic understanding of credit and cash flow were needed. Individuals at NB had very little background in financial matters and, in some cases, even contempt for standard business practice.

Fortunately, the experience of operating co-ops in the Twin Cities allowed for the transfer of some basic operational systems and business concepts. Initially, the bookeeping system was simply comprised of A/R, A/P, and Payroll Journals. Even with our limited number of accounts and vendors this system was extremely labor intensive. Statements and postings were often months behind. Over a period of a couple years this manual system became more sophisticated with the addition of monthly income statements (up to this point we never really knew if the business was making money or not!), sub-ledgers, and regular reconciliations of the checking account.

During this stage of building basic business skills the conscious use of credit was at a low level. Credit terms with our customers were not negotiated carefully. On the other hand, many of our vendors kept us on a C.O.D. basis even though payments were made promptly. In the area of finance credit, this period marked the first attempts at obtaining outside financing through bank loans. Primarily due to inexperience in the financial marketplace and our relatively low level of business practice, these attempts were unsuccessful. For example, on an observation visit to NB, a loan officer asked about our pricing structure. When he was told that our wholesale prices were HIGHER than our retail prices (a political statement to the neighborhood at that time), he repled, "That's your first mistake.", and left.

In sum, this period marked a critical process of transformation from Radicalism to Professionalism in the sphere of financial organization and administration. Though guided by high ideals of serving the neighborhood and producing a healthy product, we had to move beyond a simple critique of the negative aspects of Capitalist food production. We found that running a business required tremendous discipline, attention to detail, and serious study of basic accounting principles. We found that old patterns of sloppy work or contempt for careful record-keeping meant certain failure in the real world of production and commerce. Capitalism was a good teacher in this respect; internalized control mechanisms ("honesty is the best policy", "pay your bills on time", "watch out for debt") were exposed for what they are when confronted with the calculated, impersonal relationships on which the system is based. We found that running a business was not a game.

Computerization of the financial systems was a dynamic process, covering approximately 3 years from our first exposure to a service bureau (1979) to the installation of a computerized G/L system (1981). As with many processes, the actual development of the tools of production advanced much faster than the ability of the people using these tools to understand and integrate them into the existing systems. For instance, a service bureau was used to print out A/R and A/P figures for many months, but these reports were never actually studied by bakery managment. However, the condition of having to systematically prepare input for the service bureau was a condition that demanded a new level of precision and standardization in NB's manual books.

The computer helped to transform virtually all of the systems at NB. The first step, as with the development of the manual system, was to computerize A/R, A/P, and Payroll bookeeping functions (1980). In 1981 a key step was taken when the Order/Invoicing system was integrated with the accounting applications. Once an order was taken from the customer and entered into the computer, the data was automatically passed to the accounting and production systems. No further manipulation of figures was required to get the order into production or onto our books; a tremendous savings in terms of labor and accuracy in production and accounting. Due to the automated nature of this process, a new level of standardization was required, and this period was characterized by the development of many procedures and management forms to more tightly control information flow. This was a time of rapid change and, as in many businesses, management changes and re-structuring were required as individuals could not keep up with the objective conditions. For example, our 'personalized' delivery system (key individuals who memorized the peculiarities of each account and wrote up a "customized" invoice for each one) could no longer function in the structured environment of pre-printed invoices. New drivers were hired to replace the cadre that had previousely held these positions.

In 1981-82 the computerization of the NB bookeeping system was completed with the installation of the G/L system. There was a lengthly transition process from the manual to the automated system that required eliminating many of the inconsistancies that still existed in the manual system from the early days. For example, delivery costs had never been separated out from production costs. "Hidden" labor costs were uncovered by breaking out administrative and office labor from actual production labor.

The installation of the G/L laid the basis for developing a conscious accounting system versus a bookeeping system. 1981-82 saw an increased emphasis on credit and cash flow. By this time NB was dealing with all the major helath food retailers in the

Twin Cities, including national accounts such as General Nutrition Center (GNC) out of Pennsylvania. However, due to poor A/R controls these new accounts were actually a financial drain on the business. The GNC account alone at one time had almost $2000 in past due invoices. A concentrated effort to standardize and enforce collection procedures was undertaken and late-paying accounts were dropped or serviced on C.O.D. basis only. At the same time, suppliers were systematically reviewed to insure that NB was getting the best credit terms possible. Vendors were analyzed to determine how long we could withhold payments during a cash flow crunch without being dropped. We can say that from 1981-1985 NB was partially kept solvent by these "loans" from vendors.

As cash flow management became more critical, a system for income projection was also developed as a tool for analysis and planning. The G/L classifications were refined to more accurately identify production costs (materials, labor, distribution, etc.). In the latter stages of NB's development, research was being done to develop departmental budgets to a higher level to further control costs and allocate resources where they were most needed, but this project was never fully implemented.The objective reality during this period was that NB was forced into a "reactive" mode due to severe cash flow conditions. We had the basis in our level of accounting skills and experience to implement higher levels of accounting practice but economic "planning" came to take on the character of precise cash flow manipulation rather than preparing for controlled growth. While we became very adept at cash flow managment, the financial crisis at NB precluded development of the systems beyond what was reached at this stage.

In 1979, NB realized its first bank loan with a small local bank, starting a relationship that would continue until the bakery's end. From 1979-82 we were able to obtain significant financing for a major equipment purchase (1980) and a number of vehicles. In 1983, these loans were restructured to "buy time" for NB during a period of intense cash flow problems. However, when the time came for NB to seek financing for major re-tooling that would make it a viable competitor in the marketplace, the bank backed away. They cited NB's weak financial statements and the limited equity of its Principals Officers.

In 1981 we started a two-year process to acquire funds through the Co-op Bank in Wash., D.C. This process required many hours of labor to prepare the required forms, proposals, etc. However, the Co-op Bank was having problems of its own, and by the time the Reagan administration had taken things over, loans to small co-ops such as NB had all but discontinued. However, valuable lessons, particularly in understanding the political nature of obtaining financing through any government-controlled agency, were learned through this process.

The Co-op Bank process prepared NB for going out to local lending institutions and agencies to obtain major financing. From 1983 on, efforts were made to establish political contacts with people who had an interest in woman-owned businesses (during this period a conscious decision was made to promote the business externally as woman owned and operated), as well as commercial lending institutions. During this period NB gained experience in preparing financial statements and loan proposals for these agencies and institutions, tailoring the requests to meet the specific requirements of a given institution. External factors such as the economy in recession and the changing political climate (for example, the SBA effectively stopped loaning money to small businesses after 1984), as well NB's critical financial situation kept the large loan that was need from ever being acquired.

Our inability to obtain this capital to finance the next stage of NB's growth was the principal obstacle to the bakery's continued operation. It is important to understand some of the aspects that made this leap unattainable at that time:

1) Lack of Assets - from the beginning, NB operated with minimal equity. At the time we were searching for funds, NB had a negative net worth (we owed more than we owned). Our "equity" had always rested in our labor, not our financial holdings.

2) Objective Conditions - many of our markets (health care institutions, food service, etc.) had been fundamentally transformed by changes in the economy and the centralization and concentration of capital in these industries. NB needed time and money to make the necessary

adjustments in its market approach and product line. In general, venture capital for small-margin businesses such as the bakery was just not available in the prevailing economic climate.

3) Lack of Connections - it is a fact that most venture capital for a company of NB's size does not come from commercial lending institutions. The risks are too high. The money generally comes from personal connections; individuals with money to invest in a high-risk/high-payback situation. These connections are made, for the most part, through informal networks in institutions such as civic and fraternal organizations, country clubs, religious organizations, etc. At that time, we had not yet cultivated these connections.

ADDITIONAL NOTES: FINANCE

1. Conscious use of S&T was key to NB's continuing development. Although most apparent in the LEGAL, POLITICAL and MARKETING areas, it was also critical in FINANCE.

* Examples mentioned already of gearing financial proposals to meet the requirements of a particular institution; projecting NB as a woman-owned business to try to obtain minority funding.

* Tactics were developed during the periodic cash flow crises to fend off or temporarily soothe key vendors, to forestall collection action, or to assure continuing service from vendors.

2. An indication of the low level of development of the small to medium sized bakery industry is the discrepancy between the turn-over of products and out-flow of capital for ingredients (very fast, due to spoilage and the expectation created by the industry) VS the in-flow of capital from collections (relatively slow, conforming to the customer's slow payment policies).

This intensified when NB took on larger accounts who had rigid policies, computerized AP's and always tried to establish procedural domination to win extended credit terms. By use of S&T, and refusing to be subordinate and intimidated, we were able to successfully speed up customer payments in several cases. Computerized statements, printed on a flexible schedule, were an important tool in achieving this.