

TSP Financial Group



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SMALL BUSINESS FINANCIAL FUNDAMENTALS

SMALL BUSINESS FUNDING

LEARN HOW TO CREATE FINANCIAL
SUCCESS IN YOUR SMALL BUSINESS

THE FINANCIAL FUNDAMENTALS EVERY SMALL BUSINESS OWNER NEEDS TO THRIVE

If you're a small business owner, you're probably wearing a lot of different hats. You have to be the CEO, CMO, CFO, legal department, customer service and Human Resources. It's hard to be an expert in every single field. One area you cannot afford to be less than an expert in is your financials. It is no secret that finances are a major component of the business and its success.

Here are some business financial fundamentals to help you ensure your business runs smoothly.

KNOWING YOUR FINANCIAL RISK:

As we know, starting and running a business comes with great potential risk. Whether you're in startup mode or have been in business for decades, there is always a degree of financial risk involved.

As the business owner, you are often the last one to be paid. Making sure your family is okay with taking that financial risk and just how much of a risk they are comfortable with is a great place to start. Running a company not only impacts you but also your family. Better to start on the same page.

In order to come prepared for this conversation, know exactly what is needed to run your company and then add more. Better to have that money set aside and never need it than to not have the money and need it. Remember, you probably won't take home a paycheck for 6 months or so. Is your business plan made for that and can your family sustain that?

UNDERSTAND THE LEGAL STRUCTURE:

C-corp? Solopreneur? LLC? Determining which structure your business will have will determine the taxes it pays. For example, if you work as a solopreneur you'll be personally taxed. The tax structure differs based on the way you register your business. We always recommend meeting with a CFO, accountant and your attorney to determine the best legal structure for your business.

Adding a business partner to the mix also changes the structure. Be prepared for worst case scenarios.

The creation of a legal entity can also help shield you personally from certain legal liabilities incurred by the company in the course of doing business.

CREATING A BUSINESS PLAN THAT IS SCALABLE:

With the invention of social media, companies are growing faster than ever. It is important to include in your business plan how you will handle the volume.

It is incredibly easy for a piece of content go viral and your business to see massive growth.

Being prepared for the growth of your business is crucial to the success of your business. Having a plan in place helps ensure smooth sailing when the influx of sales comes in.

As the business plan proves itself out, the next logical step is to begin to scale the company. This is much harder than most people think because it creates more demands on management and more complex issues. In order to maintain the growth, management must learn to delegate certain responsibilities and empower their employees.

A PRODUCT PEOPLE WANT:

It is really easy to think you have the world's greatest business idea. That's why it is so important that you do your research before launching a product or service to make sure it is viable.

Before investing into a product or service, it is vital to make sure the product is salable and something your market is interested in.

Launching new products and services can be a costly endeavor and it is important to test the viability of the new product/service first.

READING AND USING FINANCIAL STATEMENTS:

A single statement cannot accurately describe the health of your business. Often times people rely on their accountant to tell them about the health of their business but it is vital as the CEO to understand where your business is at financially in order to make the best possible decisions.

What makes up your financial statement?

Balance sheets, profit and loss, income statement, ratios and your cash flow statement.

Instead of letting your accountant tell you how successful your business is, learn to read and understand the statements.

BUSINESS INSURANCE:

Different businesses need different types of insurance. There's general liability insurance, commercial auto insurance, workers' compensation and so much more!

The type of insurance you need is dependent on your industry and location.

Each state has their own requirements for insurance and often times your insurance costs are determined by the years in business, number of employees and the amount of coverage you need and where. It is important to make sure your business is insured or it could be costly.

Be sure to check your state's requirement for business insurance.

COST OF A NEW HIRE:

It is impossible to run your business alone once you start to grow. No one scaled their business alone.

New hires cost on average \$4,200 and the average time to fill a position is 42 days. The cost of a new hire may not always be apparent.

Recruiting is an obvious cost that business owners typically take into account when looking for a new hire but that's usually where the cost analysis stops.

COST OF A NEW HIRE:

It is important to look at salary and benefits cost. Benefits alone can add 1.5 times the base salary. One overlooked area for new employee costs is integration. This cost includes things like the desk, workspace and then helping them fit in with employees. If the new hire doesn't jive with who already exists in the company, you can expect that employee to not last very long.

In addition, even when they do seem to be a good fit with your company's culture, you should consider the hidden cost of the learning curve they must navigate to get up to speed, which possibly leads to longer process times, more mistakes as they learn, etc.

Be sure to take into account all aspects of the new hire to ensure at the very least, you're breaking even.

STRONG SALES & MARKETING:

Selling a product or service is the only way your business survives, right? Right. Recruiting a strong sales team is essential. Even more crucial is to implement the most efficient sales process possible, which can be achieved by developing and tracking the proper metrics. In general, three metrics relating to sales that every business owner should know cold are: 1) The cost of acquiring a customer or lead, a.k.a Customer Acquisition Cost (CAC), or Cost Per Lead (CPL); 2) How much revenue you will generate on average per customer or user (ARPC); and 3) The average lifetime value of your customers (LTV). Another important, but often overlooked, aspect of sales is providing an ongoing training program for your sales reps.

These days a strong marketing team can also be a critical driver of success. If you'd like your business to do more than survive, spending within your means on a skilled and experienced marketing team can make all the difference.

FINANCIAL DISCIPLINE:

As a small business owner, you probably have a laundry list of things you'd like to buy or invest in for your business. Maybe it's more inventory? Maybe it's a building expansion?

Whatever that looks like for you, it's important to make sure it realistically fits into the budget. While financial discipline isn't the most fun thing you'll ever do, the rewards will be worth it.

Not only is financial discipline good for the business but it's good for your health. Work within your means and reduce stress.

WORKING CAPITAL:

Finally, a business cannot run without capital in some capacity. A good business owner will know how to take that working capital and make their business work for them, not the other way around. Working capital is also a sign that your company is doing well.

A lender needs to believe in your ability to make money. Always be sure that when you're taking on some working capital, you take the right amount for your business. Too little might leave you needing more again soon and too much can drown your business.

A good rule of thumb is to keep approximately 90 days of working capital (cash) set aside.

In order to keep your business running successfully and smoothly, mastering these financial fundamentals is vital.

We know it's hard being everything in your business but being financially savvy is one area you cannot afford to be anything less than an expert.

But don't worry! We've got you covered to make this seem easier.

Keep checking your email as we'll be sending you more tips and tricks to tackle your finances so your business can really start working for you.

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