Understanding Cash Flow - A Critical Component to the Life of Your Business

There is so much going on right now and I have been through it all in the 20 years of owner owning a manufacturing retail business. But one thing that does not change is money management. I am going to share with you the simple steps in how to avoid financial crisis and the ways that you can manage your money in your business and your life. Let's talk about your business. Things happen that force us to make decisions. We have employees that come and go. We have supports and sometimes we do not. Our products and services change and we are in business to fill a gap in the market. People need our service and we are there to help. The market changes on a regular basis. We need to know how to maximize profit. It is all about cash. Let me tell you a bit about me. I was running a very successful business with my husband. We had three daughters. Our life was perfect. Then he was diagnosed with leukemia and our life became managing carpools for the girls and regular trips to the hospital. After two years, he died. I continued working in the business and I was scared about how I would make it through this. I had no choice but to figure it all out. I was forced to learn everything I could about money and how I was going to protect our business, our assets and our girls. It is important for all of us to know where our money is going and how much is coming in. So let me help you understand why cash flow is so important. We all know that businesses fail because they run out of cash. The other question is, do you know your total monthly expenses? Like in your business and personally. When you write it down you will be surprised. When I wrote it down I discovered my expenses were double what I thought they were. We had bookkeepers and I can tell you you should never rely on others to manage your money. We had one bookkeeper who literally gave them self a raise without us knowing about it. It took us a couple of months before we realized it because we were not paying attention. Another bookkeeper embezzled $250,000 from us. He was paying his personal bills out of our account. He was writing checks and cashing them. We were not paying attention. And when we had retail stores. When they would make deposits they were not depositing it in the bank. That is something that you need to be aware of. You can have people help you but you need to stay on top of every single bill, all of the expenses and manage that aspect of your business. And you have to know what is the business capacity. How much can you do in business? If you are a labor business, how many jobs can you do in a day? If you're producing something or manufacturing, you need to know the maximum product that can be made in a day and always know that you want your growth to be 20%. These are the basics. I do have to manage these. Thinking about cash flow come cash is needed for operations and for credit. You need to understand how much money you need to build your business. And you have to identify the cash flow issues, you need to look at how you can increase your profit margin and you have to understand there are costs you don't realize you have. We are all in business to make money and managing your money will help you see that. You are building assets. You have money in the bank, you can purchase more equipment and you can't expand. Negative cash flow is common with seasonal business. I owned a jewelry come any and we had to plan for Christmas because that was our biggest busiest time. Then we had to sell off extra inventory and lower the overhead. In the jewelry manufacturing industry there is a two-week mandatory vacation where we laid off all of our employees for two weeks and the whole industry closed down but I know that there are restaurants that say, we will be back in a week. It is possible to do that. You lower your overhead during the slow times. We can also access a line of credit to cover expenses during slow times. You also get a term loan for working capital and equipment. There are loans available when you have business and you can pay that loan back. Some unrealized costs and overlooked expenses. When we her pricing our inventory we need to include shipping cost. Maybe we know we hade paid $10 for an item but the shipping cost adds to that. We also need to be aware of interest on loans and credit cards. There is a cost attached to any inventory sitting on yourself or any inventory that's been around for a year or longer. Extra equipment and supplies not being used are also unrealized cost. There is money invested in that. Then we have the tariffs, duties on imports, labor, payroll and unexpected expenses like maintenance and overhead. At that goes into the cost of the goods that we are selling. Now we need to manage our expenses and think about how we are going to do that. Payroll is our biggest costs of running a business. We have licenses and subscriptions. Professional fees. Payroll and sales tax. One thing that is a huge thing with many businesses is when we sell a product and charge sales tax we co-mingle at sales tax in our bank account which makes it will like we have more money than we do. In Nevada taxes 6.8757 %. It is best to keep that in a separate account so when we have to make those tax payments we have that separated because that is not our money. If we spend the tax money, they will come after you. So that is a tip that is very important. We also have this long-term debt. We have interest on loans and we have websites and social media. We spend more money on boosting posts and different things that we need to be conscious of. You know there are many ways to reduce expenses and it is important to be creative in how you do that. So how much net revenue is actually needed to break even or make a profit in a business? Your net revenue is your profit after all expenses. This is going to determine how to price your products and services. This is something that I would have a CPA help you identify. There are many expenses that we do not always identify and that really impacts our bottom line. Some of the cash flow concerns that we need to worry about our, do you remember phoning friends money? And if you aren't paid back right away, you may not see that money. At a bank, if it's more than 90 days since you borrowed the money, it's considered a bad debt. When we were selling to all of the majors all of our products needed to be turned five times. So when there was something that was not selling, they returned it to us. They had to get rid of it. So any inventory you are selling, be conscious of keeping the best sellers in stock. If there is inventory sitting you need to put that on sale and sell it off so you can buy the more popular items. Maybe you have too many employees. There are slow times during the day and you don't need as many employees there. So you want to manage the employees that you have. And you want to think about marketing during busy times. Travel to places where you can see more than one customer or do more than one job and think about reducing entertainment. Be aware because all of these expenses are going to impact your profit margin and we are in business to make a profit. So there are civil service businesses and product distribution services. The best way to make money is we have our easy customers. And our repeat customers that come in and they are easy to do business with. If we are doing a cleaning service or a lawn service, if you are going to a certain neighborhood you went to manager sales and have more than one person that you work for in that neighborhood. When you sell of certificates that also helps with cash flow. 50% of all gift certificates are never used but they are paid for in advance. Memberships are ongoing revenue. So it is something to add if you are not currently adding this selling these. We need to determine the maximum amount of money that we can make per day when there is travel time and materials with one person. So that is something to consider. And again to see how much profit you can make. And what is the maximum capacity? Can you send someone out to do 10 jobs in a day? It's when we are producing product, I just had a customer last week making body butter and she was making 20 tubs of this body butter but, if you make 50 or 100 tubs it is the same labor. It is just a larger amount. So the labor cost comes down. And keep those best sellers in stock. In our business it took 4-6 weeks to make product but we had our best sellers in stock so we could sell that within 24 hours. So always know what your cost is and maximize your output and production. Also, compare prices. If the government sends out a request for proposals they get three quotes. You need to also get three quotes. When you get business insurance you want to bundle and get business interruption insurance, liability, car insurance. You want to bundle everything to get the best price. You know when you are renting space I had a customer last week with a restaurant. He had one location that had a kitchen already and another that did not. And he would have to build that out. So the one with the kitchen would be the better place. Everything is negotiable but you do have to ask for it. The same with websites and social media. You want to get multiple quotes. And get experts who understand your industry so they know the language and what to say and how to do it. The same thing with social media. Use experts that specialize in that platform. Get interns to help you. Get millennials. They know it better than anybody. And compare vendors. Get multiple vendors so you get the best price. Ask for credit terms. Are there promotions? You might also find manufacturers who will stock inventory for you and even take returns. And again, negotiate and renegotiate. If you don't ask you won't get it. We also have some variable expenses. These are things that change so we have to be cautious of this. We have to realize there are unexpected expenses that are not anticipating anticipated. If you can have a month of overhead covered. If you have three months it is even better. And during these difficult times it is difficult to have any savings with what is going on. So here are some other things that you should not be afraid to ask. You can actually ask your landlord to lower the rent. So think about this. You are in a retail space, your business is forced to close and you can't afford the overhead. So you can ask the landlord to take whatever they need to cover cost. I have rental property and if someone is out of work and they need their rents reduced for a month or two we can to credit payment or terms. So think about what you need to do. You can lower your finance charges on every single credit card that you have. There are deals all the time and all you need to do is call and they will lower that. There are some credit cards today with no rate fees ever. So look at your credit cards and see. Whenever you get a late fee, you can get that waived but you do need to ask. And you can negotiate the payment extensions. There was a time when all of my credit cards came due at the first of the month. So I called the companies and ask to change the due dates of my cards. And lower interest rates on loans. Right now rates have gone down so this is a good time to call and see if you can lower the interest rate. The other thing is to raise your credit line. You can call the credit card come any. If you have a $5000 limit, ask how much more they will give you. At the bank, ask for a credit line increase. If you don't have one you need to get one. You can ask them to increase your credit line for a short time. You can also ask for longer terms. Kmart was our biggest customer and there was a time when that they always paid on time. And then they wanted a 90 day credit line. Then we got the call, and they asked. Now credit cards, they have zero fees. And when you get a credit card with an annual fee you can have them waive that fee for one year. I have had some waived three years in a row. There is also 0% interest rates on balance transfers. Take advantage of that. Call and lower your interest rate. Negotiate late fees. Compare credit card companies and the lowest possible interest rate. Maximize the cash back and reward programs. You know with good payment history and credit this is a good solution. But don't exceed your credit limit. Personal credit is much easier to get than corporate credit. So when you use credit cards you want to use them with caution. At this time, when you need more money, you might want to apply for more credit cards but you should only use dirty % of the credit because that will maintain a high credit SCORE. If you max out your credit, your credit SCORE will go down. So pay it back as soon as possible. So we were purchasing things for your business on a credit card, make sure you were selling that product within a month because you don't want to ever pay the late fee and you want to take advantage of using that credit that you have established. And you know there are many money-saving apps that you can use to help you create more cash flow. There are so many more that you use I'm sure. Managing bills and timing is everything. So if you have cash and you need to transfer it from your savings, consider a high-yield online savings account. The dollar savings used to be 8.1% but now it is down to 1.5%. The Federal Reserve cut interest rates down to zero though. So there is no interest on any accounts anywhere right now. So the high-yield online savings account is somewhere you should look. And again, negotiate due dates on bills. Have them give you an extra month. Ask for discounts and longer terms. We used to offer a 5% discount if you pay within 10 days. So you can ask for a cash discount on anything you are purchasing. And you know there is a grace period of 5-10 days on many due dates. So take that when you can. Think about all of the ways that you conceive money. Other money saving tips are to review your account and confirm all charges and fees. I had a recurring fee on one of my credit cards that I missed for a couple of months. I called the company and realized it was a mistake and they were able to get rid of it. So you need to review all of your statements and make sure all of the costs are supposed to be there. Always compare prices and get multiple quotes. We should all have multiple suppliers and vendors to get products from. Purchase used equipment. Take advantage of promotions and closeouts that your regular vendors offer. And subcontract out work. If you need something done in your business, outsourced labor. So when we were manufacturing Hillary, when we manufactured there were pieces that were not 100%. Sometimes pieces were damaged in transit. We only paid 100% for perfect pieces so it is something to consider if it is relevant to your business. Use professionals and experts only when needed. So, if you have a lawyer that you want to review a contract, you want to get an idea of how much that will cost. A lawyer might say they are just billable hours. But, they should still be able to tell you what that will run. So make sure you can cap costs. When I went through a partnership dispute I capped the cost and when I got a bill for more than agreed, they capped the cost. You need to negotiate and monitor every single thing in your business. It is all about the cash flow. So think about everything that you can do in-house. You can barter when needed but with caution. There was a year that I had a retail store and we bartered about $25,000 worth of merchandise but that really hurt our cash flow. We did not have money to pay our bills. So I would advise you to barter only things that are needed.. We found out that recycling and reusing items was good. Time is money. You have to know that everything you do, there needs to be a return on that investment. And you can think of other ways to save money. The whole exercise here is to be conscious. Money saved is more profit in your pocket. And the more profit in your pocket allows you to do the things that you would not normally be able to do like vacations. And anything that you would like to do, that profit is important. It's better in your pocket than anyone else's. The next thing is, how much do you actually need to sell to break even? How much do you need to sell to make a profit? So you have your breakeven which covers everything and then how much more do you need and how can you maximize your profit? So the main question is, are you buying the products at the lowest price? If you buy directly from the manufacturer you are going to get a much better price. Then you would if you are buying from a reseller. When you bite gift cards and memberships, that increases your business. And you want to sell your products and services and met as many ways as you can to all of the different markets. And the key is always to keep your customers coming back. They come back because you provide a good service. Connect with your customers. Customer retention is so important. And today, with technology, we have Facebook live. We have zoom meetings and webinars. Have a conference call. Text, phone and email on a regular basis. Maintain and nurture relationships in your business context because customers do business with people that they like and that is how you are going to build your business and keep your business thriving. Now, let's talk about all of the different ways that you can sell your products and services. Retail sales and pop-up shops are a good way to get your product in the hands of your customers. Also wholesale and mass distribution. When you are selling something wholesale you need to have a two or three time markup. So do you have enough profit margin there to sell wholesale? And you want to maintain your retail price. We had a conflict because we were selling to major discount stores and we had a store and we had to sell at the manufacturers suggested retail price. So you need to maintain the pricing on your product. Today there are so many ways to sell online. You might want to consider multilevel marketing if it is relevant. You can have partnerships where there are other people selling products with you where other companies are carrying your products. You can offer private events and of course, cobranding. So that's like Dunkin' Donuts and Baskin-Robbins sharing space. That is putting two products together. Your product and another brand product. And of course we have to hire the right people. So, employees are your biggest asset. We need to empower employees and involve them in the decision-making. So during hard times your employees understand your business. You need to communicate effectively and let them know what's going on. And you need to motivate them. And if you need to reduce employees because of the loss of business, offer them unemployment or something they can do from home. And think about if they need to be in the office or if they can work from home. Also, employees, empower them with knowledge and skills through training. I used to send every employee I had to a time management class. And their productivity increased substantially. Training them and giving them new skills will help you grow your business. You want to offer incentives to employees to help with product development and sales and projects. Employees sometimes understand your business better than you do because they are the ones that have the direct communication with your customers. And they can help you with solutions to any issue that you have. Thank them and show them gratitude. You can never thank employees enough. It is great to make them feel good. You can give them titles, bonuses. Think about ways that you can tell them thank you. It will always come back to you. And today there is an uncertainty that we cannot control. But what we can control is taking care of our health, working hard and adjusting to the times. Protecting the safety and security of those that we love. So we want to simplify our business so it is enjoyable. And when it stops being fun we have to consider, is this the time to get out? The reward of business is beyond what you can imagine as their is no employee security. When you were hired by a company there is no security. So when you start a business or own a business, working those long hours are worth it. And you know a successful business is how well we solve problems. We learn as we go and we make mistakes and we have to learn from those mistakes. Businesses create our financial security for our future and our family so that we can retire and enjoy life but managing and understanding money is how you're going to realize your profits and your success. Be mindful with every single dollar that you spend. Once it it is spent it's hard to get that back. And also think about ways to save money in our personal life and our business. Every penny saved makes a difference. And let me leave you with this. The five things about entrepreneurial business, always do what you love to do. Surround yourself with experts and people that support you. Have a plan. Evaluate it regularly. Make changes. Do whatever is necessary to keep your business afloat. Persistence. Do not ever give up and don't listen to those people that say it will never work. You need to persist. Profit is the reason we are in business. If we are not profitable there is no reason to be in business. We need to make all we can, save all we can and give all we can. Are there any questions? I want you all to know that SCORE is here to help. We have webinars that are free of charge and mentors here to help you. Please feel free to contact me at any time.

We will go ahead and jump into the Q&A of this webinar. We will try to address every question possible. We do typically receive more questions than we can answer during the webinar. We will be sending the presentation slide deck out to all participants and it includes contact information for Julie to ask questions and get further assistance. Also we recommend contacting your SCORE mentor to get questions answered. If you do not yet have a SCORE mentor , you can do that from the www.score.org . And if you go to www.score.org/findmentor that will help you find a mentor. We are receiving so many great questions. Let's take this first one from Gwendolyn. Gwendolyn is asking if there is a percentage or formula to calculate variable expenses or unexpected expenses.

Unexpected expenses, there is no formula. Right now, what's happening right now, we don't expect that within we get a $500 prepare Bill. All expenses are fixed and variable and we need to be very conscious of those. Variable could be driving 40 minutes to go to a job when we could do a job 10 minutes away that's more profitable. So think about that time. We could produce 100 pieces rather than 10 pieces and it is the same overhead cost to make 100 pieces as it is to make 10. So you need to manage that based upon the type of business that you have.

So the next question is from Andrea. She says this is a great presentation. And she wonders what you mean by inventory must be turned five times.

Any inventory that you have in your store needs to be sold and reordered and sold and reordered. Five times means it is a best-selling item. When you are in business you want to only keep those on the shelf. When inventory sits too long we lose profit margin because we have to donated or sell it on sale. And let me talk about donating items. Never donate product. Always donate gift certificates because that forces people to come into your store and do business with you. A gift certificate encourages people to do business with you. Next question.

This question is from another Andrea. She says she is a business owner of a brewery and they only use a debit card. Should she got a credit card now or when they open and have revenue?

I think it is a great idea to use cash when you start a business and that means it is money in your account. I would get a credit card only when you have revenue to pay it back. So you don't want to go over 30 days. You have a 30 day window there to pay that back so when you start your business, I would get as many credit cards as I can and build your business credit. Next question.

The next question comes from Jim. And Jim says that they pay cash for business bills and they are debt-free as a business. They fine that their business has a low credit rating because of this. Is it a good idea to take out a loan to increase credit.

Credit cards is where you get that credit rating. I would get all of the credit cards you can and then with that cash, pay back that credit card within the 30 days. That is the only way to build your credit is to take credit and pay it back. A line of credit is used for short-term. I would advise to get credit cards. Really, it is the best way to go.

Next question. We have a two-part question. This is from Sergi. It is a question about cash balance.

With cash balance you want to have overhead expenses in a bank account and they say 3-6 months. But in today's times a month can help that you need to have a cash reserve so that cash balance helps you to buy more inventory for working capital if you need more employees or if you need to purchase a piece of equipment. I'm assuming that's what you mean by cash balance.

Then next part of that question?

What is the recommended timeline for a startup small business? Is a one year cash flow plan enough?

Your cash flow projections when you start a business is, what is your best guess of what you think you are going to do in business and you really don't know month to month. You need to keep track of your sales and you have to think about your income and expenses to make sure you are making a profit. That is where the financial peace comes into place. And once you have your month to month in a year you will see where your slow times are and where your busiest times are. In a retail store you may even want to consider what are your busiest hours of the day so that you can manage employees. That really is what we are talking about with cash flow. Cash coming into the business and going out of the business and how you were going to manage that. Next question.

The next question is from Alex. His question is referring to a bullet on slide number six mentioning that business should grow by 20%. He wants to know if you can elaborate on what that means.

A successful business should have a growth of 20% per year. If you are doing a financial project ocean and you are giving it to a bank they want to see 20% growth. So that is your guideline to make sure that your business is profitable and growing. It is a number in a textbook that says a business should grow 20% each year. Businesses can grow less than that and still be okay but the ultimate goal to be successful in business is to grow as much as possible. That really comes down to understanding your income and your expenses so you can maintain the profit margin and expand your business with more inventory. That is what we are in business to do.

This next question is from Chanel. Asking if the variable business expense is calculated into operating cost.

Absolutely. Variable expenses will be based on different times of year and different months. So, Christmas time I needed more inventory so might inventory levels were at their maximum then. And that was more expense for the business but it has to be managed because we are hoping that we projected that we are going to sell all of that inventory at the highest possible price. This is something that you learn over time. Variable expenses have to be managed and watched. If we drive less we have less gasoline expense. If we do less boosting on social media we will have less expense. If we use less cause we have more profit and that is why we are in business. To make a profit.

This next question is from Angela. She would like to know how can you lower interest on your mortgage if you work from home.

So, the thing is, it depends on how many years you have had your mortgage. There are a lot of companies that will refinance your mortgage and today is the best time to do that. Mortgages are at the very lowest rate that you are going to have to show your income and have assets. My kids are real estate agents and as a real estate agent you are on commission. So not every month is the same. They are taking your income based on the last three years and doing an average to see what you can afford. When you have a mortgage on your home you wanted to be a percentage of your income. I think it used to be 25% but maybe now it is 30%. But you really have to show that you can pay it back to refinance. And getting any loan is all about, can you pay that loan back. That is what the bank wants. But absolutely. Everybody should be lowering interest on everything they have because the Federal Reserve cut interest rates so you can ask and have them cut your interest rates on everything you have. Next question.

This next question is from Arthur asking if we should be considering using the superlow rates for the SBA loans for small businesses and if we did, what are the strategies to think about from cash flow to maintaining ballot.

So what I would always advise you, the low rates are very low for the SBA loan. The short term loan is 6-12 months and it is a 3.75% short-term loan. I had a client contact me yesterday and she is an anterior designer. She asked about that loan and taking it out. And my question was, do you have the business to pay it back. Don't take out a loan unless you have business that you need that money for. It always has to be paid back and that is the thing to consider. Only take what you need. And that is why managing your cash is always the best way to manage your business. Don't take out a loan unless you have to. I only took out a loan when I had an order that I had to fulfill and I needed the cash to make the order but I knew I was going to get money back within 30 or 60 days. So that is what you need to consider. There are loans, online lenders, or you can get money like crowdfunding. So you could consider that. So consider those online funding sources. GoFundMe for emergencies, lending club, kick starter, funding circle. That is crowdfunding. So consider that. Other questions?

Next question, do you recommend outsourcing accounting and can you talk about typical cost for that in a startup or small business.

You can certainly outsource accounting but I would advise you to get QuickBooks Pro. It is a very easy software to use and you manage all of the money coming in and going out and you can get an outsourced accountant that can help you with your year-end statements and looking at things. I think you need to manage it. You can outsource it and get different prices. Contact three different companies and see what they charge. Also find out how long they have been doing it and if they understand your type of business. They need to understand your industry to be most effective.

Those are all of the questions that we have time for today. If we did not get to address your question, we again encourage you to connect with your SCORE mentor after the presentation and they can address those questions. A link to the slide deck and email will be sent to everyone. All of the contact information for Julie is in that as well. If you happen to miss the introduction during this webinar today, I would like to conclude by recognizing this unique situation that all businesses are in right now and are impacted by the coronavirus outbreak. And I want to remind you that SCORE is here for you. Mentoring services are going strong and available virtually. If you don't have a score mentor yet you can find one by going to www.score.org/findmentor . And the SCORE homepage has been updated with a number of coronavirus resources. You can access that by going to www.score.org. We are preparing to hold a national webinar to answer your specific questions. So, while the majority of us are homebound now and possibly having some time to take advantage of online training, I want to remind you that SCORE records all presentation and stores them on www.score.org. There are also online resources to take advantage of on the website. SCORE is here for you and your business. So don't hesitate to reach out. Let's give a very special thank you topresenting today .

It is my pleasure. Thank you to all of you.

We wish you good health and safety and resilience. Take care. We look forward to seeing you back next time.

[ Event Concluded ]