Week 3, Journey 4: Business Financial Strategy

The Iowa Center Women's Business Center
Iowa Center for Economic Success

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Total Time: 109 minutes

Personal and Business Finances

As a business owner, you have many financial obligations when it comes to your company. But your personal financial obligations matter too, and they need to be considered as you plan for how you will manage the money of your business. This excursion within the Your Business Financial Strategy journey will guide you through what you need to know to analyze personal and business finances and how they relate to each other.

- Personal and Business Finances
    - Untangle the differences between personal and business finances, and consider when to separate and when to mingle the two.
- Navigating Personal and business Finances
    - Assess different types of personal and business debt and how to manage them.
- Checking and Monitoring Your Credit
    - Start monitoring your personal credit, and think about business credit too.
- Financial Literacy
    - See how small business owner Brenda Nolby overcame a financial struggle and used and SBA-backed loan to thrive.

Conclusion – Personal and Business Finances

Whether it's your household expenses, your student loan repayment or your credit score, your personal finances can have a large impact on the finances of your business. If you are able, invest in your business while still protecting your personal assets.

Solid management of your personal money boosts business success. Organizing personal finances is essential for a business owner because often business debt becomes personal debt when a business is young or small.

Many business owners use their personal assets to grow their business, but keep in mind the risks if you choose to do so. You can use a "litmus test" to gauge the worst-case scenario by asking yourself, "What would be repossessed if I missed a payment?"

Financial institutions are using personal credit scores on their own less and less to evaluate small business risk. Business credit is taking the scene, and it comes with a number of advantages: increasing the credit you get, adding value to your company and protecting your personal credit.

Ascent: Journey 4 – Business Financial Strategy

Jam Hops Gymnastics, Dance and Cheer didn't qualify for traditional financing when owner Brenda Nolby was seeking to grow the business, so she pursued an SBA-guaranteed loan as an alternative. In addition to the loan, expert guidance from a business coach taught Brenda about managing her personal and business finances.

To continue your exploration:

- Personal versus Business Expenses
- The National Foundation of Credit Counseling
- Financial Counseling Association of America
- Community Development Financial Institutions
- S Corporations & C Corporations
- Fair Credit Reporting Act (FCRA)
- Annual Free Credit Reports
- Where to Find Free Access to One of Your Credit Scores
- How Do I Get and Keep a Good Credit Score?
- Employer ID Number
- SBA Office of Financial Assistance Resources
- SBA Find Local Assistance

Interested in seeing how different financial statements can help you grow your business? Explore the Financial Statements & Business Growth Decisions excursion next.

Financial Statements and Business Growth Decisions

Your business' financial statements hold vital information. As an entrepreneur, you can use this information to make more informed, strategic and data-driven business decisions. The tools here will help you get familiar with Profit and Loss Statements, Balance Sheets, and Cash Flow Statements, as well as financial ratios—metrics that indicate the financial health of your business. This excursion within the Your Business Financial Strategy journey will guide you through what you need to do to utilize financial statements to guide business growth decisions.

How to Understand Profit and Loss Statements

Familiarize yourself with a Profit and Loss Statement—its components and overall purpose—and practice creating one for your business.

- How to Understand Balance Sheets
  - Familiarize yourself with a Balance Sheet—its components and overall purpose—and practice creating one for your business.
- How to Understand Cash Flow Statements
  - Familiarize yourself with a cash flow planner and Cash Flow Statement—their components and overall purpose—and practice creating them for your business.
- Calculate and Analyze Your Financial Ratios
  - Find out what financial ratios are and how you can calculate them to keep a check on your business' financial health and performance.

Conclusion – Financial Statements and Business Growth Decisions

You’ve seen that each financial statement tells a piece of a story about your business—how your business is controlling costs and how much income you’ve been able to generate in a specific period of time, your business’s financial position at a particular point in time, and how your business is managing its cash flow over a specific period of time.

- A Profit and Loss Statement, also known as an Income Statement, measures net income or loss over a defined period of time. To calculate your net income, you followed these steps:
    - Add up your itemized list of expenses for all operational costs.
    - Subtract your subtotal of expenses from your gross profit to arrive at your net pre-tax profit.
- A Balance Sheet shows your company’s assets, liabilities and owners’ equity to indicate financial health at a specific point in time. The goal of a Balance Sheet is to make sure that your company’s assets are equal to the combination of your liabilities and owners’ equity, i.e., Assets = Liabilities + Equity (Net Worth). As such, it shows your collection of total assets plus how they were paid for.1
- A Cash Flow Statement shows the timing of all cash going in and out of the business over a particular period of time. The cash flow planning tool you reviewed helped you see, in detail, the cash inflows and outflows. Loan principal payment, capital purchases and owner’s withdrawal are all important factors to include in your cash plan.
- Financial ratios help you measure different aspects of your business’s productivity—using assets, generating profits, moving inventory, and so on. Calculating financial ratios simply requires working with the numbers in your company’s financial statements. For example, current ratio measures your company's ability to pay both short- and long-term debts, and is calculated using numbers from your Balance Sheet and the formula Current Assets / Current Liabilities.

To continue your exploration:

- Ratios and Formulas in Customer Financial Analysis
- How to Analyze Your Business Using Financial Ratios
- The Top 10 Financial Ratios for Business Owners
- Financial Ratios
- Financial Ratio Calculators
- What are my business financial ratios?

Interested in formulating data-driven financial projections for your business based on history and informed prediction? Explore the Financial Projections excursion next.

Financial Projections

Business owners share the common challenge of developing financial projections while trying to predict the future. What will the market look like in a few years? How do you plan for the best- and worst-case scenario? Use these resources to help keep your forecasting skills sharp. This excursion within the Your Business Financial Strategy journey will guide you through what you need to do to develop financial projections.

- Financial Forecasting
    - Practice forecasting your business' future income.
- Projecting Your Best and Worst Case Financial Scenarios
    - Project best, worst, and base-case financial scenarios for your business.

Conclusion - Financial Projections

Your business's market is anything but certain. Predicting market changes while forecasting various financial scenarios will help you better plan for business growth and help you determine where and how to focus your future financial activities.

- Financial forecasting will help you identify revenue and expense patterns, indicate the health of your business to potential investors, and test the financial consequences of strategic plans to reach your revenue goals.
- Planning for best-, worst-, and base-case financial scenarios will help you plan for expected financial returns or losses, stay proactive in your business decisions, and mitigate risk.

Interested in learning how to use key performance indicators to measure the financial performance of your business? Explore the Financial KPIs excursion next.

Financial KPIs

Is your business meeting its set goals? Key performance indicators, or KPIs, are measures that can offer you illuminating insights into your business' performance. Use KPIs such as Year-over-Year growth to help you forge a path toward new opportunities to grow. This excursion within the Your Business Financial Strategy journey will guide you through what you need to know to develop and practice use of financial key performance indicators (KPIs).

- Key Performance Indicators (KPIs)…Your BFF
    - Scope out the essential elements of a KPI that let you peer into your business performance.
- Calculating Year-over-Year Growth
    - Measure your company's annual revenue growth rate with you YoY growth, a financial KPI.
- What Are Some Industry Examples of KPIs?
    - Browse through a number of KPIs across various industries.
- Financial Key Performance Indicators
    - Strategize on setting the right KPIs to measure your business success.

Conclusion – Financial KPIs

Key performance indicators tell you how effectively your business is meeting its goals and objectives. They can also provide advance notice if your company is heading in the wrong direction. Regardless of your industry, KPIs should be meaningful and relevant to your business.

- Great KPIs are objective, predictive, measurable and goal oriented, time specific, and success oriented.
- A Year-over-Year (YoY) growth analysis provides you the percentage change in revenue over a period of time. Add this KPI to your toolkit to better understand your business's performance and plan action steps for the upcoming fiscal year.
- KPIs are values, numbers, and percentages that can be financial or nonfinancial. While some KPIs are common across a variety of different industries, others are specific to one particular field. When developing your own KPIs, consider doing research to discover possible metrics used in your own field, or you can even conduct a cross-industry comparison to brainstorm ideas.
- Don't have time to look at every number? KPIs and data dashboards can ease the burden on you as a small business owner by allowing you to see your business performance at a glance. Investing the time up front to craft quality KPIs for your company can save you time in the long run.

To continue your exploration:

- Inventory Turnover

Interested in exploring money-saving techniques for your company? Explore the Bootstrapping excursion next.

Bootstrapping

In this tool, we'll show you examples of creative ways to find money and need less money to succeed in your business. This excursion within the Your Business Financial Strategy journey will guide you through what you need to do to apply bootstrapping money-saving techniques to your business.

- Bootstrap Your Business to Success
  - Gain valuable information on bootstrapping techniques, and then create a bootstrapping plan for your business.

Conclusion – Bootstrapping

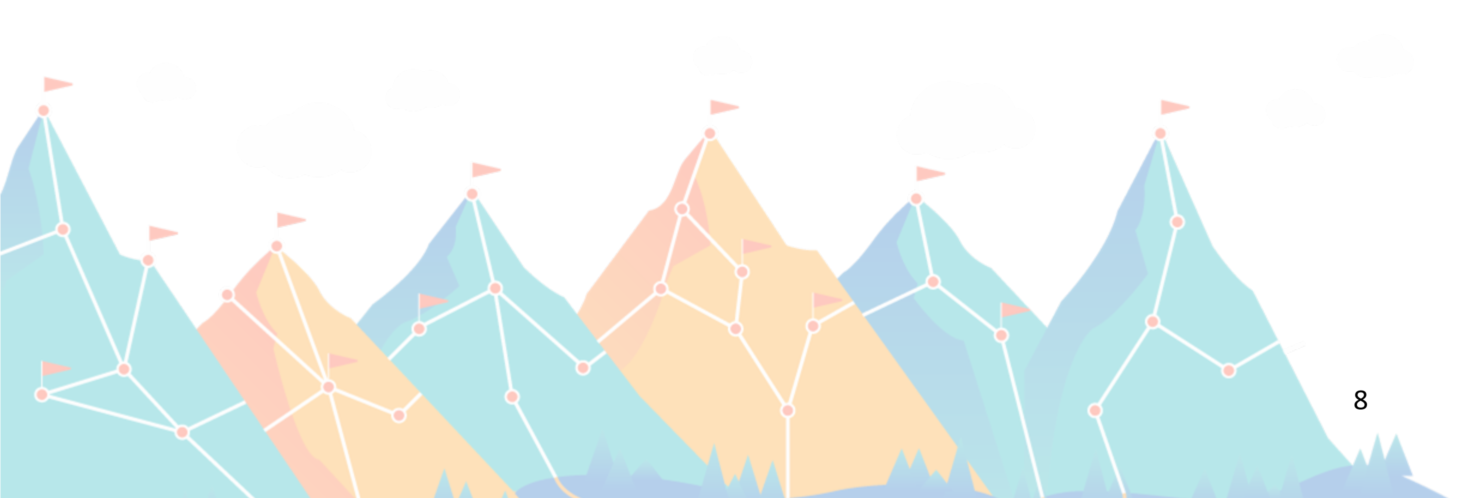
According to the International Reciprocal Trade Association (IRTA), the worldwide bartering volume is estimated to be $12 billion–$14 billion. What do the CEO of Tarte Cosmetics and the body-shaping undergarment business Spanx have in common? They both have used bootstrapping techniques to build their dream businesses.

- Read through a wide range of inspirational bootstrapping ideas, and then use the brainstorming and planning tool for your business. The tips are broken into the following categories:
  - Space
  - Bartering
  - Marketing and Branding
  - Creative Hiring/Compensation Structuring
  - Suppliers and Terms
  - Equipment
  - Other creative solutions

To continue your exploration:

- Interested in Home Office Deductions?
- Two Ways to Share Equity with Your Team
- Commission Regulations and Requirements for Employers
- Commission Fact Sheet
- Bartering Alliances
- Bartering Fact Sheet

Interested in building better relationships with your bankers, becoming an angel investor and funding pitches? Explore the Access to Capital journey next.



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