

So, You Want to Start a Business?

Written by Jamie Wolf

Wednesday, 12 September 2012 09:34



Money Money Money

TAKING ACTION – Part 5 of 6

WHY do you want to start a business? WHY haven't you started yet? Chances are you can use the same word to answer both questions. Money!

Money is certainly not the only motivator for those of us who want to be in business for ourselves. It is more often what money can buy: security, time for family, the ability to travel, taking care of loved ones, some fun or luxury after years of being practical or scraping by. Being in business is about things besides money, of course, things like autonomy and creative freedom and intellectual stimulation. The bottom line equation, however, involves money. If you *start*

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a business it needs to make money so you can
stay
in business.

Then there are various reasons people who want to start a business haven't yet done so. You don't know what to do first (hopefully this column is taking care of some of that), you procrastinate because sometimes when you don't know what you don't know, it's hard to figure out what ONE thing you could learn that would solve your issue and jumpstart the process, you don't understand business finances, or you can't take action to start because you feel like you just can't afford to move forward.

So let's talk about numbers!

Disclaimer – I'm not an accountant and I don't play one on TV. But I can give you an overview of what you need to know about your numbers and where you might go to get help and get dollars.

by Karen Berman and Joe Knight. http://www.amazon.com/Financial-Intelligence-Entrepreneur-s-Really-Numbers/dp/1422119157/ref=sr_1_2?s=books&ie=UTF8&qid=1346185805&sr=1-2&keywords=financial+intelligence

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It's no secret that cash is king. You need cash to get started. You need cash to keep going. Running out of cash is one of the two biggest reasons companies fail (quitting is the other biggest reason – just giving up and closing the doors.) And making tons of cash is what lures us into business to begin with, that and an idea or opportunity we just can't let pass us by! While profit can be found on the income statement, and a company's assets (or owner's equity) is revealed in the balance sheet, these statements rely on a lot of assumptions so they can be a bit muddy. And due to accounting rules, the timing of when money is recorded as coming in or going out affects what gets recorded as profit. But cash flow is pretty much WYSIWYG – what you see is what you get, with the noted cautions below. Because it's possible to have a profitable business and still have a cash flow problem, getting a strong handle on cash flow allows you to understand – and maintain – the health of your business!

How can profit outstrip cash? A growing business falls into this trap often. Say you have a business that sells organic frozen pizza to specialty grocery stores. You have to buy ingredients and your vendors expect to be paid within 30 days. BUT the stores carrying your product don't pay you until 60 days after a sale. Whether business is good or bad, you have consistent overhead – the lights have to stay on and the lease has to get paid. Then you have employees with salaries and benefits. Business is great, however, and the stores place double the orders – which means in month 2 you have to buy more ingredients... BEFORE you have been paid from your first month's sales. Do you see how for a fledgling business with months of this kind of growth that could be quite a challenge?

Cash flow can also play an interesting but opposite trick. Say you are in the retail business where you sell directly to your customers and you are experiencing steady growth. In other words, each month you sell more than you did last month and the cash lands in your drawer immediately when the sale is made. Meanwhile you are a good negotiator and you managed to obtain good credit terms with your vendors so you have 60 days to pay them back. In other words, you subtract overhead from the cash that comes in the door but not the cost of goods. So each month your bank account looks more flush than the last but if you aren't paying attention to what you owe you could get carried away. In other words, it is possible to have cash - a lot of cash - in your bank account without having reached a break-even point.

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It is critical to understand the difference between profit and cash because when you know which problem you have you know which solution you need. If you have cash but not profit, you need operational or organizational help. if you have profit but not cash, you need financing. And that brings me to the second 'why'. We know that making money is *why* you want to take the action of going into business. And we know that needing money is

why

you haven't yet taken the action to get going.

So. Where do you find money? Below is not an exhaustive list but it covers the most common sources a new business turns to:

- Look in the mirror – self-financing is the primary method on which the majority of small-business owners rely. This includes
 - Savings
 - Lines of credit
 - Credit cards (be careful – this gets expensive!)
- Look in your back yard – what assets and resources do you have already that you can either liquidate or use as collateral?

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- Savings accounts
- Investment accounts
- Real estate
- Retirement accounts
- Collectibles
- Recreational or other vehicles
- Sources of money that are available - but I personally don't recommend
 - Borrowing against the equity in your home (what happens to the roof over your head if you can't pay this back?)
 - Borrowing against the cash value of your life insurance (what happens to your loved ones if something happens to you and you can't pay this back?)
 - Borrowing against your IRA (You created your IRA for a reason and being your own bank wasn't on the list. So again, what happens to your retirement plans if you can't pay this back?)
- Loans – I don't play a banker on TV either. There are excellent sources of information available on these products through your local community banks and through the SBA. Know

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that a lender will look at your personal credit history; your character – as determined by any prior credit difficulties, tax liens, lawsuits, or bankruptcy; your capacity – other ways for you to repay your debt if your business slumps; and your collateral – certificates of deposit, stocks, real estate, inventory, or equipment

- Line-of-credit loans – also known as a revolving line-of-credit, usually renewable annually
- Installment loans
- Balloon loans – also known as interest-only loans
- Secured or unsecured loans – as a new business it's highly unlikely you will get an unsecured loan
- Other sources
- Vendor financing
- Leasing
- Factoring (accounts receivable financing)
- Crowdsourcing, crowdfunding, microfinancing
- Peer-to-peer lending

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- Angel investors
- Bonds, grants, tax credits (depending on your business/industry)

DO's

- **DO** get familiar with business numbers and become informed. Make a commitment to read, learn, and create your own balance sheet, income statement, and cash flow – so you know how they work and what sorts of things affect them.
- **DO** keep pushing yourself. You will be glad you did in the area of financial literacy – don't just farm it all out. In the long run you will feel much more confident about your business when you can put your own spreadsheets together.

DON'Ts

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- **DON'T** be afraid of numbers. The most successful entrepreneurs are the ones who are very comfortable with looking at trends and recognizing signs based on numbers – with enough time to react to any problems.
- **DON'T** let lack of financial intelligence prevent you from taking action and starting your business. As you improve your knowledge you may find that you have more money than you thought or perhaps you'll at least know steps to take to tighten up your cash flow and get started!

ACTION ITEMS:

- Talk to your accountant, your banker, your local SBA lender, your SCORE or SBDC representative, and find out if there are any classes coming up that will help you increase your comfort with business finances. Sign up for one or several.
- If money is what has been holding you back from starting your business, first, make sure you understand what you actually need to get started and next, make a list of 3-5 sources you now realize you have and set a time limit for yourself to access them and move ahead towards your dreams!
- Plan to keep checking in with this series to learn next steps to start a business.
- Be sure to check out my new book and workbooks.

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- Send a question to Jamie.wolf@theStartOver.com! Tell me what's happened for you so far. Thank you!

Beaufort resident Jamie Wolf is the author of 'Start Over! Start Now! Ten Keys to SUCCESS in Business and Life' and ten accompanying guidebooks. ☐ If you're ready to be Master of your Fate and Captain of your Soul, she invites you to come on board! Jamie offers online courses and coaching for entrepreneurs and people interested in starting over or in starting their own business. Visit her at <http://www.thestartover.com>

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