



# Successful Financial Management for Small Business Owners

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People from all walks of life dream of starting a business and watching it revolutionize an industry. However, entrepreneurs are better known for innovation rather than superior financial management skills. Walt Disney started seven different companies before he enlisted his brother Roy to manage the money. Great business leaders might need to find their “Roy” before reaching the heights of entrepreneurship.

Until then, embrace the following basic financial management practices to encourage financial health for your business.



### Financial Plans Form the Framework

Simply opening a business checking account and putting some money into it is insufficient for the unpredictable life of a business. Most lenders and the Small Business Administration recommend the creation of a business plan for companies of all sizes.

Simple business plans form the framework for the administration of a business. This methodical approach causes the owner to make some important decisions ahead of time. Carefully planning your steps require you to think of goals and objectives that will guide the business through various growth stages.

A useful business plan will incorporate the following terms to make sure that all of the small business bases are covered:





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## Cash Flow Strategy

Businesses must have sufficient cash available for emergencies and day-to-day business function. Managing the cash flow includes the minimum amount of money that will be held in reserve. Major expenditures will require special handling through savings or credit. Writing a check, accessing a line of credit, or securing a loan are options to be used under special conditions. Proactive decisions prevent missteps later.

## Budget

Every company must operate according to a detailed monthly budget. Once the actual expenses have been listed, the business owner will understand how much income is required to cover the business operation. Budget categories must be prioritized to support decisions for cost cutting measures during lean times.

## Purchasing Policy

Vendors and suppliers will require proof from the business that bills will be paid on time before credit is extended. Payment to each supplier is sent near the end of the term to optimize the cash flow. Large purchases should be detailed in this plan to prevent too many large purchases in the same month or fiscal year.

## Collection Plan

A business that extends credit to customers must have a strategy for collecting payments on time. Because overdue payments can be very costly for small businesses, many businesses have adopted a cash-only policy to reduce the administrative effort required. Decide in advance what your policy is for extending credit to customers!

## Emergency Fund

A proper emergency fund means having a cash reserve equal to six to twelve months of income. This will allow you to pay for unexpected sales fluctuations and ongoing operations.

## Investment Strategy

Before precious funds are invested in stocks, bonds and other instruments, the business owner should consult a financial advisor to establish investment guidelines and an investment strategy that matches the owner's risk tolerance.



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## Review Reports for Understanding & Tracking

Excellent financial managers are aware of the company's financial health at all times. Reports are helpful, but the ability to assess the information on the reports is the most important skill to develop. Reviewing and understanding your business plan and financial management strategy now will give you an advantage later, too; If you hire a bookkeeper or accountant, you will be able to understand what they do and what their reports mean in the future, allowing you to track and analyze your finances independently and recognize anomalies in the reports.

### Monthly Statements

- Month-by-month reports are essential for examining the health of the business because they provide a short-term view of what is happening within your business. It is also easier to spot anomalies when comparing multiple reports at the same time. The same set of reports should be generated each month to provide trending information.
- Financial statement
- Balance sheet
- Income statement
- Cash flow statement.

### Supporting Legal Documents

- Financial management is incomplete without all of the documents that are issued in conjunction with other required documents. Periodically review this list to ensure you are in compliance with various small business laws.
- Stock certificates
- Life insurance policies
- Real estate deeds
- Tax returns
- Bank records
- Daily sales receipts
- Accounting ledgers.



## Successful Financial Management for Small Business Owners



### Small Business Owners Never Stop Learning

The financial management side of small business ownership can be daunting for the person who would rather spend time generating revenue. But when you're first starting out, you might need to be the one behind the financial reins. Make a plan and stick to it, and soon enough you may be able to bring on a bookkeeper or accountant to pick up where you left off!

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