SAP Concur

10 Tiny Financial Habits of the Richest Small Business Owners

By Barry Moltz

www.barrymoltz.com | @barrymoltz

THE BEST RUN SAP

SAP Business Exchange is pleased to present…

Barry Moltz

Barry Moltz gets small businesses unstuck.

As a small business expert, Barry Moltz gets owners growing again by unlocking their long-forgotten potential. With decades of entrepreneurial experience in his own business ventures as well as consulting countless other entrepreneurs, Barry has discovered the formula to get stuck business owners unstuck and marching forward. As a small business expert, Barry applies simple, strategic steps to facilitate change.

Barry has founded and run small businesses with a great deal of success and failure for more than 20 years. After successfully selling his last operating business, Barry has branched out into a number of entrepreneurship-related activities. He founded an angel investor group, an angel fund, and is a former advisory member of the board of the Angel Capital Education Foundation. His first book, *You Need to Be A Little Crazy: The Truth about Starting and Growing Your Business* describes the ups and downs and emotional trials of running a business. It is in its fifth reprint and has been translated into Chinese, Russian, Korean, and Thai.

His second book, *Bounce! Failure, Resiliency and the Confidence to Achieve Your Next Great Success*, shows what it takes to come back and develop true business confidence. It has been translated into Korean and German. His third book, *BAM! Delivering Customer Service in a Self-Service World*, shows how customer service is the new marketing. People now buy experiences and relationships, not products. His fourth book, *Small Town Rules: How Small Business and Big Brands can Profit in a Connected Economy*, shows how when every customer can talk to every other customer, it's like living in a small town – your reputation is everything! His fifth book, *How to Get Unstuck: 25 Ways to Get Your Business Growing Again*, focuses on how to get small business owners making more profits in their company. Barry's sixth book, *Small Business Hacks: 100 Shortcuts to Your Success* with Rieva Lesonsky, outlines solutions for small business owners in seven steps or less.

Barry is a nationally recognized speaker about small businesses. He has given hundreds of presentations to audiences ranging in size from 20 to 20,000. As a member of the Entrepreneurship Hall of Fame, he has also taught entrepreneurship as an adjunct professor at the Illinois Institute of Technology and has designed the small business marketing curriculum at National Louis University. He has appeared on many TV and radio programs such as CNBC's *The Big Idea with Donny Deutsch*, MSNBC's *Your Business* and NPR's *The Tavis Smiley Show*. He hosts his own radio show, *Business, Insanity Talk Radio* on AM560, and writes regularly for the American Express *OPEN Forum* and other online and offline periodicals.

Shafran Moltz Group, LLC
http://www.barrymoltz.com
Host of The Small Business Radio Show on AM820 WCPT

Introduction

For many small business owners, understanding the financial status of their company is not their best skill. They get overwhelmed by the seemingly complicated reports that may be hard to get from their financial system or they don't know how to interpret them for their company. As result, they fall behind on what their results have been and are not able to use their financial metrics to make the best decisions in the future.

This e-guide is meant to highlight the 10 tiny financial habits you can practice every month to make your company more successful. Pick one and start now!

01 Read your financial statements monthly

Conquer your fear of the numbers. Every small business owner needs to know how to read and understand their profit and loss statement and balance sheet. Get help from your accountant or educate yourself online. Review your financial statements on a monthly basis.

01 Read your financial statements monthly

A profit and loss statement shows the revenue, expenses, and profit of a business over a period of time. The basic components include:

Net profit

This is the difference between gross profit and general expenses. Taxes and depreciation are typically then deducted from net profit.

Cost of goods or services

This is defined as the direct cost of producing the product or service, like raw materials, products for resell, or labor.

Gross profit

The difference between sales and cost of goods is also known as the gross margin.

General expenses

This includes items such as rent, people, insurance, utilities, telephone, and travel.

Revenue

This is a business's sales, resulting from customers buying your products or services.

You can identify trends in your company by comparing this month's profit and loss statement to last month's, the same month last year, and your budget.

01 Read your financial statements monthly

The balance sheet is the book value of your business at any given point in time. It also measures the ability of a company to pay its debts. The basic components are:

Assets
What the company owns.
This can include:

- **Cash:** How much money the company has in the bank
- **Accounts receivable:** The value and aging of the money that is owed the business
- **Inventory:** The value of the inventory

Liabilities
What the company owes.
This can include:

- **Accounts payable:** The money the business owes vendors
- **Loans:** The money the company owes banks and other sources

Owner's Equity: The assets minus the liabilities. This can include paid in capital (stock) and retained earnings.

The one key metric you should always review is the quick ratio on the balance sheet. This is the company's current amount of assets divided by current liabilities. It measures the financial stability of a business and its ability to pay its bills. In most industries, **the quick ratio should be greater than 1:1.** It shows the company has more cash available than current money it owes. When the ratio goes below 1:1, it means your business may not be able to meet its financial commitments.

02

Use a budget and update it once a year

We all like to set goals and then strive to achieve them. Yet, why don't more of us make an annual budget for our companies? There are three general hesitations around setting up an annual budget. First, the future is uncertain and it's hard to put numbers to it. Second, if you did put an annual budget down on paper, it may show your company losing money for the year, and that would be depressing. Third, how will you feel and what will you do if you fail to meet your budget during the year?

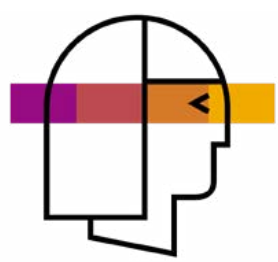
02 Use a budget and update it once a year

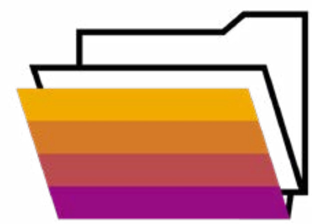
Setting up an annual budget of expected revenue and expenses for a company is a critical financial management tool **to increase profitability and ensure there is enough capital** to run the company.

Here is where to start:

Collect all the numbers. Review your annual profit and loss statements from the last two years. Take out one-time revenue and expense bumps that will not be repeated in the current year. Use the information left to calculate the average of these last two years. Adjust the numbers for current year increased expenses, changes in gross margins, market conditions, one-time investments, and projected revenue. For the current year, will hiring more salespeople result in higher income? Will adding employees increase the company's health insurance expenses? If this is the first time a budget is being set up, Microsoft Excel has templates you can use.

02 Use a budget and update it once a year





Replace optimism with realism. Annual budgets become ineffective if they are filled with hope and no realistic chance of meeting those objectives. Think through your specific profit goals and why certain numbers are set the way they are. For example, **what expense investments are being made this year that will increase sales?** Most small business owners project revenue that's too high and expenses that are too low. When in doubt, cut revenue expectations by 25% and increase expenses by 10%.

Add the budget into a financial system. Take this annual budget and divide it by month. This becomes the profit and loss statement for the upcoming year. Enter it into the company's financial application so each time monthly financial statements are reviewed, they can be compared to the budget.

02 Use a budget and update it once a year

Adjust once a year. Annual budgets can work only if they are utilized correctly. They are a fundamental way to track planned monthly revenues and expenses against actual performance. They answer the question, "How is the company doing compared to what we expected?" Ideally, budgets should only be set once a year, then only changed every six months. Don't hastily pass judgement on being financially ahead or behind on the budget forecast. Treat any unexpected result as valuable information the company can use to make midyear adjustments.

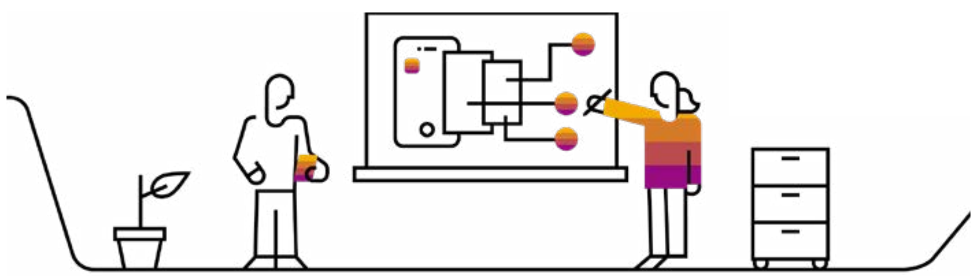
Control and adjust. If the company is not meeting the budget, consider which expenses can be controlled or reallocated. **What changes need to be made to hit revenue targets?** Asking these types of questions is the exact purpose of the budget. It allows the company to make adjustments that still allow them to meet their goals.

Invoice customers sooner or more frequently

Most companies want to pay their bills on time. The quicker a company can get paid for their products or services, the more cash flow they will have in the company for expenses or to make toward new investments.

Make sure the invoice goes out either in advance or when the products or services are delivered. **Too many companies either wait weeks to send them out** or do all their invoicing only once a month. This delays cash flow. If a company can bill two weeks sooner and they currently generate US$100,000 in cash sales a month, then they could potentially bring $50,000 more cash into their company. That's a lot of money that can either be invested in new projects or taken out by the owner.

Additionally, if the company provides ongoing services to customers, consider billing them twice a month instead of sending a monthly invoice.



04 Limit customer credit

Too many small businesses give credit to customers because they are excited about getting the sale. They reason that they will worry about collecting the money later! This is not an effective strategy since a customer that doesn't pay is worse than not getting the customer sale at all. Depending on paying your bills from customer receipts that may never come always leads to cash flow shortages.

04 Limit customer credit

Remember that credit is a privilege; it is something that should be earned, not automatically given. Always ask to be paid in advance or with a credit card at time of delivery. This should be the default, not automatically offering credit. Unless it is a very large publicly traded company, always ask a customer to prepay the first few orders. Then give them a small amount of credit (less than $1,000) to measure if they pay within terms. Restrict the number of customers or the amount of credit available at any point in time. This will limit the company's accounts receivable and cash flow exposure.

Finally, I was on a sales call with a client and their customer offered to pay at the end of the meeting. My client responded, "No thanks, we will bill you at the end of the month!" Don't do this! **When a customer offers payment, take their money!**

05 Collect customer payments faster

This is one of the best ways to generate more cash in your bank account. Most business customers want to pay their bills within terms, and the polite “squeaky wheel” is more likely to get paid sooner.

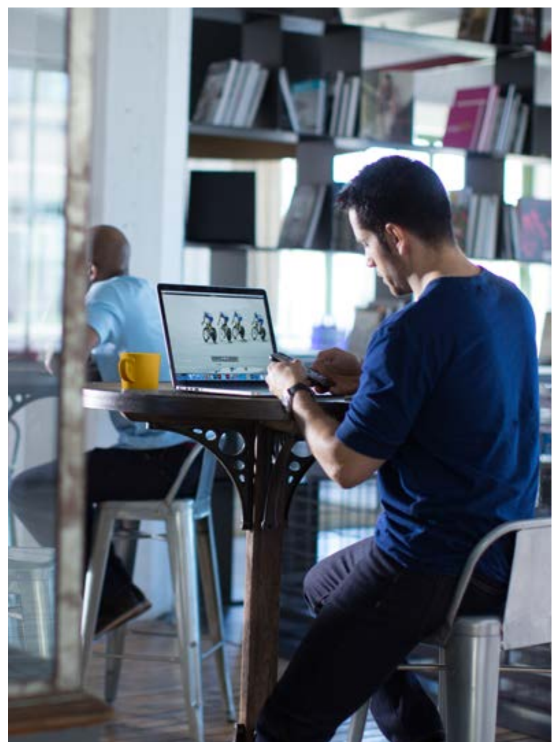
05 Collect customer payments faster

To ensure you collect payments faster, follow this simple process:

- Send the bill on time
- Confirm with the customer that the bill was received a week later
- Ask when it will be paid
- A week before that committed date, call to ensure it is still scheduled to be paid
- If the payment is not received a few days after that date, call again to see what happened

Small business owners can also stop waiting for mailed checks by setting up electronic payments to any bank account. It is a good practice to require this of any customer that gets credit terms from your company.

Overall, when it comes to collecting their money, many small business owners are afraid to be paid. **Be fearless! Ask for the money**, you have earned it! Remember that a customer who does not pay is not a customer; they are a collection problem!



06 Pay vendor bills on time with a credit card

If the company has additional time to pay its own bills, more cash will stay in the business longer. Small business owners can stay within their payment terms by using credit cards for bills that are due now.

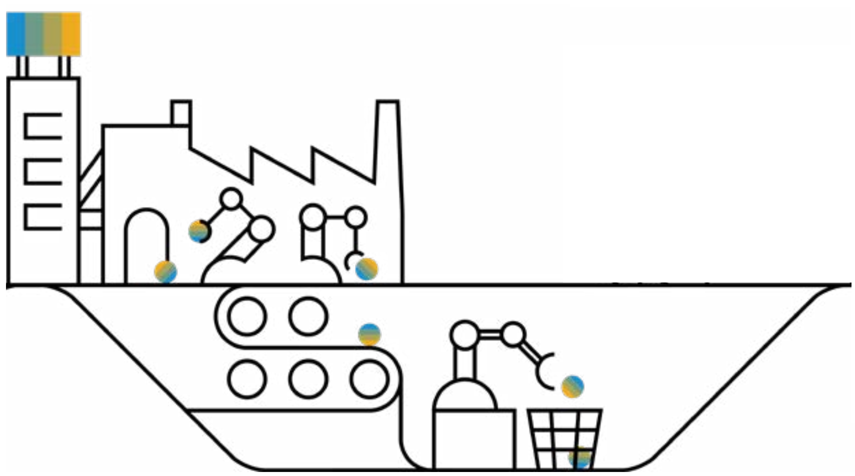
For example, if payment is due within 30 days, pay on that date but use a credit card to do it. This will typically extend the time when cash will be withdrawn from your bank account by 30–45 days depending on the card's billing cycle. Most companies will accept a credit card and bear the added cost even if you have been given terms. Take advantage of this!

If the company requires you to pay a credit card fee of 3% in addition to the invoice, then this is not a good strategy because it is too expensive for the additional cash flow.

07 Minimize inventory and maximize its turns

For small business owners, a lot of their cash is tied up in inventory purchased so they can have products available when customers order them.

How much inventory a company carries (in stock) and how often it turns (that is, replaced) are two critical areas that determine how much cash this takes. **The value of a business's inventory at any point in time is cash invested in the company** that is not accessible to pay other expenses and can't be taken out by the owners as profit.



07 Minimize inventory and maximize its turns

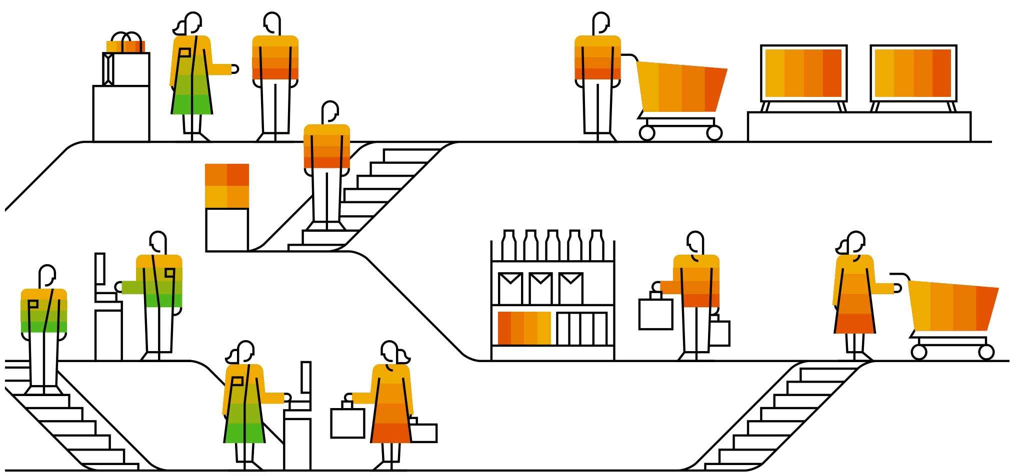
To minimize inventory, decide the immediate fill rate that customers will accept (that is, the percentage of time the product is in stock). Customers typically expect a fill rate of 80% to 90% for many companies. The critical part is to accurately communicate to the customer when you expect to ship their order.

Setting lower reorder points for inventory (when orders will be placed) and reorder quantities (how much will be ordered at that time) will help prevent excessive inventory and cash investment "sitting on the shelf." However, ordering small quantities from vendors may force your company to lose volume discounts or free shipping that will increase your cost of goods sold.

An alternative to having cash tied up in inventory is to drop ship orders from product vendors so whatever products your company has on hand is minimized.

Make more expenses variable

Variable expenses can change based on how much product or service is sold in a given month. This can include the cost of inventory, customer shipping, outside labor, and sales commissions. In other words, the company only incurs that cost when a product or service is sold.



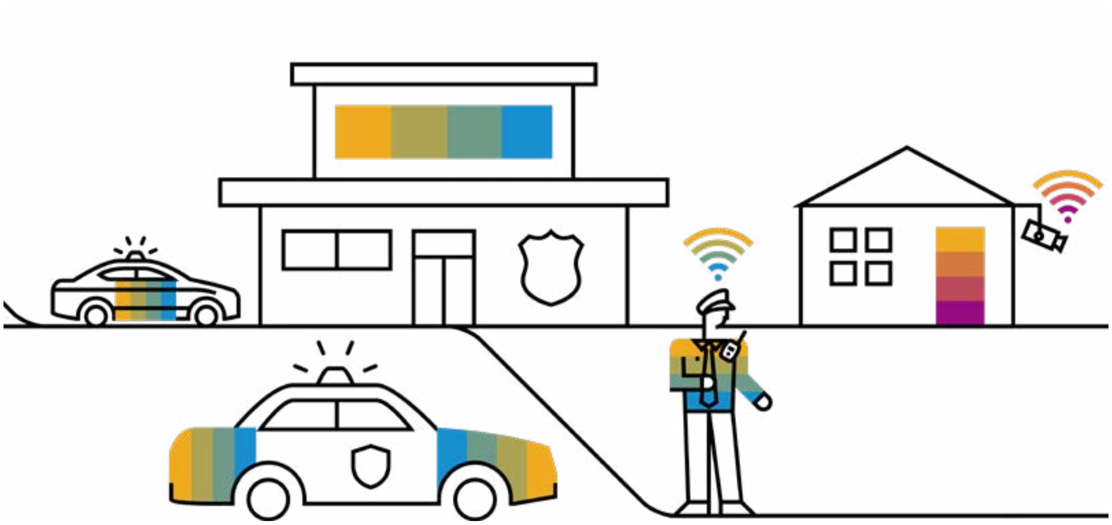
08 Make more expenses variable

Alternately, fixed expenses stay the same regardless of what is sold in a month (for example: office rent, utilities, and some employees). **Keeping as many expenses variable as possible, and only a few expenses fixed, can help companies make a higher profit** because their expenses will be lower when sales go down. In this way, underutilized resources (such as expenses) can become a real weight on the bottom line.

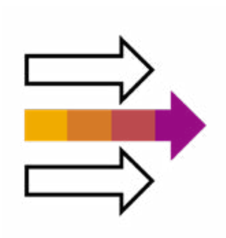
For example, this can happen when employee productivity is down due to variance in sales volume (very busy or extremely slow). You can try to keep these expenses variable by using seasonal workers, freelancers, or other third-party resources and only paying them when they work. The risk here is that you may not get the quality or quantity of labor you need when the sales happen.

Always guard your cash – cash flow management with visibility

Every failed company goes out of business for one reason: they run out of cash. Here are the best ways to make sure you keep the coffers full.



09 Always guard your cash – cash flow management with visibility



Use cash-focused financial reports. The accrual method is the accepted form of financial reporting. It matches costs to time periods in a way that allows you to visualize how well your business is functioning. The drawback is the accrual method makes it harder to understand how much money you have.

Most small business accounting software provides an option to create reports using the cash method of accounting, which provides a clearer picture of where the money is sitting. For example, the accrual method recognizes a sale when you bill your customer, while the cash method records the sale when the customer pays your company. Using cash-based reports regularly gives you the information you need to better manage cash flow.

Manage auto payments. Setting recurring bills for automatic payment can be a great deal – less paperwork, no hassles, and maybe a discount for participating. Vendors offer this because they are sharing the cost savings and get hidden value from the benefit of the guaranteed cash flow you provide them by giving up control over when you send them the money.

On the flip side, offering autopay to your own customers can accelerate your cash flow and reduce payment processing and collections costs. Sharing the savings to get cash faster may well be a price worth paying.

09 Always guard your cash – cash flow management with visibility

Change merchant processors. If your company takes credit cards, you have a merchant agreement with a payment processing company. If you haven't reviewed your plan in a while, it may be worth the effort. Any reduction in percentage of payments the processor keeps is a financial savings, and getting that money a day or two faster can relieve day-to-day cash flow bottlenecks.

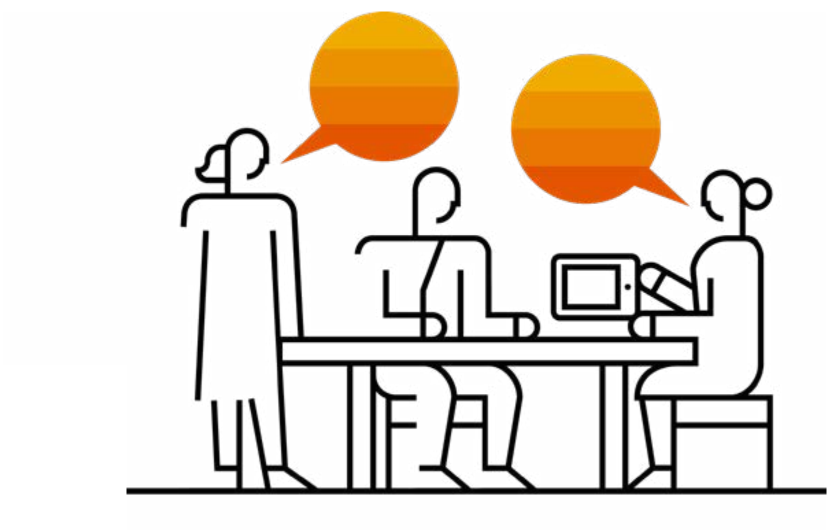
Take a careful look at the new breed of merchant processors from apps like Square and PocketSuite. Not only do they offer lower fees and faster payments, many offer options such as e-mailing or texting receipts, which gives you valuable customer contact data to use in your follow-up marketing efforts.

Require customer deposits. If you sell big-ticket items or make custom products to order, winning a large order is a blessing and a curse. You must buy raw materials and components weeks or months in advance of billing the sale and collecting the revenue. Any caterer that's experienced a called-off wedding knows the pain of cancellation.

Take an idea from the caterer's playbook and require a substantial deposit for unusually large orders. This allows you to use the customer's own money to finance up-front costs and greatly lowers the risk of cancellation and non-payment. If necessary, offer a 1% or 2% discount to secure the deposit. It's cheaper and safer than floating a balance on your credit card.

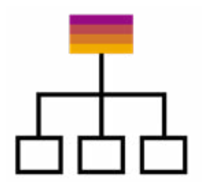
10 Only borrow what you can pay back (soon)

For many, the conventional wisdom is that you can never ask for too much money when getting a business loan. However, a company can request too high an amount and not qualify for that level of a loan. Similarly, when they get that loan, they don't have the cash flow from current sales to actually pay it back it back within the agreed terms.



10 Only borrow what you can pay back (soon)

It is much better to determine how much money your business really needs before even applying. You can determine that by asking the following questions:



What will the loan be used for in your business? This is a critical question because it will affect all the other answers. A business loan should be used to fund the purchase of equipment, help with seasonality, or launch a new product. **For example, a company can borrow $100,000 to launch a new product that will take 10 months before it starts to generate $10,000/month to cover its cost.**

You should not use it to fund ongoing losses where the loan proceeds will not increase profit in the future. This will not help the company progress forward and many months later you will be in the same place (now with more debt).

When do you need the money? Many funding sources can take months to decide on when they can provide the cash for a committed loan. You need to determine if this will work with the timing of when the capital is needed for the planned project. It's not effective to get money in May if the capital is needed in January. Some short-term loans at a higher rate offer the ability to send funds directly to companies in as little as two days. It's important to project cash flow needs over the next few years before determining the size of the loan you need now.

10 Only borrow what you can pay back (soon)

How much will it cost? When getting a business loan, interest fees can range from the prime rate to upwards of 50%, depending upon the type of lender and the period of the loan. You can check your payments by using a simple loan calculator with the amount that is borrowed along with the interest rate. Bankrate and Shopify are just two of the many options available. Don't forget the additional closing costs the funding source may charge.

How long do you need the money for? This question is connected to the same one the funding source will be asking you; how long will it take to pay the loan back? **Every company needs to put together a simple financial model based on a timetable of when the funded project will generate positive cash flow.** Subtract the future loan payments from the company's current cash profit to determine if it can support the repayment before the new project starts to show a return on its investment.

For example, a company borrows $100,000 at an 8% interest rate for five years. This is a payment of $2,028 payment per month. Can their current profit repay it at this rate? If this was your company, you could do an additional test by reducing the expected profit by 25% to see if you could still meet your repayment obligation.

When getting a business loan, apply for 10% to 20% more than the company really needs if you can qualify for the higher amount. Many times, expenses are either more than anticipated or revenue takes longer to generate than expected.

10 tiny financial habits of the richest small business owners

01 Read your financial statements monthly

02 Use a budget and update it once year

03 Invoice customers sooner or more frequently

04 Limit customer credit

05 Collect customer payments faster

06 Pay vendor bills on time with a credit card

07 Minimize inventory and maximize its turns

08 Make more expenses variable

09 Always guard your cash – cash flow management with visibility

10 Only borrow what you can pay back (soon)

About SAP Concur

SAP Concur takes companies of all sizes and stages beyond automation to a completely connected spend management solution encompassing travel, expense, invoice, compliance, and risk. Our global expertise, industry-leading innovation, and dynamic ecosystem of diverse partners and applications unlock powerful insights that help businesses reduce complexity and see spending clearly, so they can manage it proactively. www.concur.com

Concur Travel & Expense

After payroll, travel-related spend is often the second-largest line item on a business's budget. And if you want to manage all that money effectively, you need a solution that's truly integrated into your travel program.

Concur® Travel & Expense is a cloud-based solution that connects travel suppliers, travel management companies, credit cards, vendors, and your employees' favorite apps — every place and way that your employees spend money so you can apply policy up-front and capture that spend. It's built with users in mind and designed to grow along with you.

Learn more

Concur Invoice

Your finance and accounts payable teams are key to driving business forward. Automation is the key to helping them be more efficient and more accurate.

Concur® Invoice eliminates piles of paperwork, drastically reduces processing time and — because it can integrate invoices with travel and expense payments in a single system — provides a complete view to monitor and manage all your business spending.

Learn more

About SAP Business Exchange

SAP Business Exchange is a business community network designed to inspire innovation and insights that unlock opportunities for businesses. It provides small businesses with networking opportunities, best practices, and partner service discounts on a platform that promotes economic, social, and environmental good. Click below to learn more and register to become a member.

Learn more

SAP Concur

Learn more at concur.com

SB DESCRIPTION enUS (19/02)

THE BEST RUN SAP