MONEY MASTERY SECRETS

FOR SMALL BUSINESS OWNERS

Community Futures Saskatchewan

MONEY MASTERY SECRETS FOR SMALL BUSINESS OWNERS

Pop quiz: what is something that no one wants to talk about yet nearly every single small business owner struggles with at some point? If you guessed money, you're spot on.

It's true—most resources for entrepreneurs provide advice for everything from business planning to marketing while glossing over financial topics because it makes people uncomfortable. Meanwhile, 29% of small businesses fail due to poor cash flow, according to research company **CB Insights**. It's the second most common reason for failure!

At Community Futures, we're determined to turn that statistic around by sharing essential financial education. In this guide, you will learn:

- 6 steps for creating a small business budget to enable steady cash flow
- 3 affordable budgeting tools for entrepreneurs
- What you need to know about small business loans

Use the information below to build a stable financial foundation for your business and create the lifestyle and livelihood you want. Also, feel free to **reach out to Community Futures** with questions about financial planning and loan management.

NOTE: THIS EBOOK SHOULD BE USED AS A HELPFUL GUIDE, BUT SHOULD NOT BE CONSIDERED AS A REPLACEMENT TO APPROPRIATE LEGAL AND ACCOUNTING ADVICE. COMMUNITY FUTURES ACCEPTS NO LIABILITY FOR ERRORS OR OMISSIONS CONTAINED WITHIN THIS PUBLICATION.

CREATE A SMALL BUSINESS BUDGET IN 6 STEPS

Creating a small business budget is the first step toward financial stability. It allows you to keep a finger on the pulse of your finances, forecast expenses and profits, and make adjustments before it's too late.

Follow these steps to create a budget using Microsoft Excel or other budgeting/accounting tools for entrepreneurs (discussed in the next section):

1. ADD UP ALL SOURCES OF INCOMES

As an entrepreneur or solopreneur, you may have multiple sources of income. For instance, a freelance graphic designer or a graphic design studio might earn revenue from:

- Monthly client retainers
- Per-project payments
- Membership fees from clients accessing graphic design templates that are hidden behind a paywall
- Hourly earnings
- Savings
- **Small business loans**
- Investors

Think of everything you have been paid for within the past 6 months, reviewing documents or bank statements if necessary, and write down all sources of income. The total figure for all revenue streams is your total revenue.

For analysis, also separate your total revenue figure into various overarching categories such as "per-project payments" and "hourly earnings," or by client name if preferred (for instance, a freelance fitness instructor working one-on-one with 10 clients may find it more useful to list client names as income sources).

2. TALLY FIXED COSTS

As the name suggests, fixed costs tend to stay the same regardless of how much your small business produces. This can include:

- Rent
- Utilities
- Insurance
- Office supplies
- Employee salaries
- Bank fees

List out the names and amounts within your budgeting spreadsheet.

3. IDENTIFY VARIABLE COSTS

Unlike fixed costs, variable costs increase or decrease depending on the productivity of your small business. This category encompasses:

- Hourly wages for employees
- Employee commission
- Advertising and marketing
- Transportation expenses
- Materials

For example, the freelance personal trainer mentioned above may need to drive to more gyms or homes as he books more clients, increasing his revenue but also increasing his variable transportation costs.

4. CONSIDER UNANTICIPATED EXPENSES

Broken computers or a flat tire on the company car—these things happen but they don't have to put your finances in the red. Leave some room in your budget for one-time expenses by creating a separate cost category.

5. COMBINE EXPENSES INTO A TOTAL COST SNAPSHOT

Separating fixed costs, variable expenses, and one-time charges in your tracking system can show where your small business is spending the most. Now go one step further and add each of these costs to determine your total costs figure, like your total revenue figure from step 1.

6. COMPARE REVENUE AND COSTS, AND ADJUST AS NECESSARY

Now that you know your total costs and total revenue, compare the two figures. If your small business costs outweigh your revenue, it's time to cut fixed expenses, adjust variable expenses, and increase income wherever possible.

For instance, are you really using 10 GB of cell phone data or could you cut your bill in half with a 5 GB plan? Can you renegotiate rates with clients or increase sales to avoid operating at a loss?

Think of your budget as a compass for your small business; used correctly, it can keep you sailing in the right direction no matter what challenges arise and how circumstances change. All you have to do is keep is habitually update your small business budget and refer to it regularly.

3 AFFORDABLE BUDGETING AND ACCOUNTING TOOLS FOR ENTREPRENEURS

If you're like most entrepreneurs, you don't have a ton of time for data entry or a lot of money to spend on accounting. Here are a few affordable budgeting and accounting tools designed to help Canadian small business owners stay on top of their financial situation, with less data entry and cost.

1. QUICKBOOKS ONLINE

QuickBooks has been an accounting powerhouse for years and its reign doesn't seem to be ending soon. Designed to make small business accounting easy, it features:

- Income and expense tracking, invoicing, and linking with online banking systems
- Various packages available for different levels of need, from basic expense tracking features to add-ons like payroll features
- The ability to add multiple users
- Free 30-day trial
- Apps for iOS and Android

More information is available at **https://quickbooks.intuit.ca/**.

Note: Though QuickBooks has a desktop version available in Pro, Premier, and Enterprise editions, it's best to use the online version since the desktop version may be phased out in the future.

2. FRESHBOOKS

FreshBooks is ideal for small business owners and freelancers who don't need a full-fledged accounting tool, just one that handles invoicing, billing, and reporting. The online-only software features:

- Easy setup
- Access from all devices and free app accounts for iOS and Android—powerful for on-the-go small business owners
- User-friendly interface
- 30-day free trial
- Pricing by number of users and clients

Find more information at **https://www.freshbooks.com/**.

3. XERO

Xero aims for a zero-hassle experience. Great for PC and Mac users, Xero features:

- No setup fees
- Free unlimited users
- Invoicing and billing capabilities, with the option to include payroll services through more comprehensive packages
- Streamlined financial dashboard
- 30-day free trial and no contracts—users can cancel at any time

Learn more about Xero at **https://www.xero.com/ca/**.

WHAT YOU NEED TO KNOW ABOUT SMALL BUSINESS LOANS

When starting a business, many entrepreneurs look to external sources to help them fund their dreams. Oftentimes this means small business loans through banks or other financial institutions like **Community Futures**, a government-sponsored organization that has provided **loans**, advice, and support to small business owners for 30 years.

No matter where you're hoping to borrow from, there are certain things every small business owner should know—and do—before accepting a loan.

LENDING CRITERIA DIFFERS BY FINANCIAL INSTITUTION

There are countless different types of loans available for various types of entrepreneurs. It's important to do your research in order to find the one that fits your small business plans. Check the lending criteria for each financial institution under consideration.

For instance, **Community Futures provides flexible loans** that are customized to each entrepreneur's needs, from growing a business to buying out an existing company. Guidelines include:

- $150,000 maximum to any one entity
- Fixed interest rate and amortization established at time of application
- No repayment penalties
- Application and administration fees will apply

TIP: FIND OUT WHETHER A LOAN THROUGH COMMUNITY FUTURES IS RIGHT FOR YOU USING THE SIMPLE LOAN CALCULATOR.

UNDERSTAND BORROWER ELIGIBILITY GUIDELINES AND HOW TO BE A MORE APPEALING BORROWER

You've checked out the loan specifications and it seems like a good fit… but are you? Check out the borrower eligibility guidelines to see whether you're a match. Are they looking for borrowers who are starting businesses within certain geographic areas or industries? These types of questions can help to determine which loan programs you are eligible for.

Keep in mind that the most appealing borrowers tend to be those with strong financial histories. Though good credit history is not necessarily a make-or-break item for all lenders, increasing your credit score and demonstrating a successful track record of paying back debt never hurts your appeal.

Take a serious look at your financial profile. If it needs a little work, see what you can do about minimizing debt and increasing your credit score while continuing to do loan research. Some best practices for doing this include:

- Keeping a constant eye on your credit reports
- Making timely credit card payments that are more than the minimum payment amounts (it's always best to keep balances as low as possible)
- Paying down debt rather than shifting it from account to account
- Not opening and closing too many credit card accounts within a short period
- Applying for or opening new credit cards only when necessary
- Creating a budget that includes all necessary debt payments such as student loans, credit cards, and car payments

READ THE FINE PRINT AND CREATE A PAYMENT PLAN BEFORE SIGNING

Never sign anything until you understand the loan contract inside and out. Jumping in too quickly is a surefire way to get in over your head—never a good sign when it comes to the financial foundation of your business.

Become familiar with the application process and whether there will be application and administrative fees to consider. Then, learn about how much money you would receive and when, loan interest rates, repayment penalties, consequences of failing to repay, etc.

With all of that information, you will be able to create a model repayment plan to understand how much you could expect to repay monthly/quarterly/annually. If the repayment plan for a particular loan doesn't seem feasible for your financial situation, perhaps it's best to explore other funding options or other lending institutions.

DON'T WAIT UNTIL YOU'RE IN A JAM

One last word about small business loans: don't wait until the last minute to explore borrowing. When you're desperate for cash, you may agree to poor terms that you otherwise wouldn't. Start researching ahead of time with a clear head to make the best decisions.

FINANCIAL SUCCESS ALL COMES DOWN TO ONE THING

Planning ahead. Using resources like the Community Futures' **blog** and **online training tools** to become more financially-savvy, tracking expenses and setting a budget, doing your research on business loans—these tactics can ensure that your small business doesn't crumple under cash flow issues. Be proactive rather than reactive and reach out for help when needed! Everyone at Community Futures is in your corner.

FIND OUT WHETHER A SMALL BUSINESS LOAN THROUGH COMMUNITY FUTURES IS RIGHT FOR YOU!

CONTACT YOUR LOCAL COMMUNITY FUTURES OFFICE FOR PROGRAM INFORMATION AND APPLICATIONS.