

Five points to remember for your small business' financial health

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In the past, all you needed was a great product or service for a successful small business. While you still need to be great to stand out from the crowd, understanding how to manage your finances is just as important to keep you afloat.

Money is a resource and it needs to be treated as such. So to be a success, you have to be able to manage your bookkeeping, set up cash flow projections, and know what it takes to secure a loan.



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Cashflow projections

You would be surprised how few business owners perform regular cashflow projections. The reality is that managing your liquidity is actually more important than being profitable. Granted, you're in business to make money, but your cash flow cycle is important to the health of your business.

In the simplest of terms, a cashflow projection looks at the amount of sales forecasted in a given period, less the costs incurred to make those sales happen.

The trick is that both are moving targets. If you could predict your sales down to the last cent, then you would retire rich. As for managing costs... That could well be an art unto itself. But understanding how much cash you need to run your business is critical.

Accounting and bookkeeping

While you can hire someone to handle these tasks, you will need to understand how to read the reports they are producing. A good accountant should help you understand the figures, including tax planning, because in the end, you're the one who will make the decisions.

Balancing marketing and sales

Of course, marketing is very important, but it can also be a black hole if you don't know how to get a return on your marketing efforts. Spending 10% of your revenue on advertising and marketing just doesn't cut it any more, you need to have a clear marketing strategy.

Knowing how and when to get a loan

Sometimes you'll need a little extra cash to purchase new equipment, extra inventory for growth, or to get your business through tough times. While proper cash planning and bookkeeping are important steps in preparing for a loan, you will also need to research which lender is the best fit for your business, what programmes they offer and their guidelines.

Develop a savings and investment plan

We all know you need to save for a rainy day. But how many people actually do so? This means planning. Remember to keep your business and personal accounts separate. You'd be surprised how many small business owners actually treat their business account as their personal account.

This is dangerous as it can get you in trouble during tax time and make it difficult to get a loan, or to sell your business. In some cases, it can also make you personally liable for the actions of your business.

Being your own boss can be liberating since the buck literally stops with you. However, this also means you are solely responsible for the financial health of your small business. Only you can decide what to do with the money and this starts with having a good idea of where it comes from and where it is going.

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