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Where Do You Stand FINANCIALLY?

Plan To Succeed Online

Take The Guess Work Out of Starting & Building a Successful Business Online!

"Being busy with activities does not pay, only results do. As in baseball you only get points for getting to the goal of home plate. Just making it to the bases does not count."

Where Do You Stand Financially?

Before you start planning for the cash needs of your new business, you should first determine how much cash you have on hand and how much you (and your family) will need to survive - or carry on as usual.

Financial Planning

Okay, so you've developed your idea for a business into a pretty solid plan. Great! Now what?

Now you have to get down to logistics and practicalities, such as how much money will you need to start your business and get it off the ground. The good news is that starting and operating a business online costs a heck of a lot less than doing it offline, in the brick and mortar world. Most online entrepreneurs are able to launch their businesses without any need of outside financing.

They only get into trouble down the line by spending money willy nilly without a plan and then being surprised by unanticipated costs or expenditures. All too many fall into the "rosy forecast" trap, optimistically predicting robust sales in the first few months will cover their reckless spending spree. Then they blame the medium rather than mismanagement when their cash flow dries up.

This is just plain stupid! While it's true you don't need a lot of money to set up a business online, unless you have deep pockets, you need to be smart in planning how you are going to spend the money you do have most effectively. Your product or service may improve the condition of mankind for generations to come, but if you don't know what's going on in your business, you are not in a very good position to assure its profitability.

This is where financial planning and record keeping come in. In formulating this critical section of your business plan, you will establish vital schedules that will guide the financial health of your business through the troubled waters of the first year and beyond.

Basic Accounting

Keeping books on your business may seem like a lot of work - but it needn't be. The most basic of requirement is to keep a record of your business' income and expenses. This is usually called a general journal or ledger. You can pick one up at any office supply store. (Yes, you can keep all your records online, but if you're like me, you still like using a pencil and paper and like to have a hard-copy of all your important information.)

As far as your expenses go, the simplest thing to do is to put all of your receipts into an envelope and at the end of each month, either sort them into separate envelopes according to type of expense or transfer your totals by category into your journal or ledger. (If there is a separate column for taxes paid, you might want to enter this figure as well.) It's best to use a ledger with various columns that isolate expense categories, so you can be clear on exactly what you are spending for what.

You can do the same thing for your income. Usually, when you make a sale online, you will receive email confirmation. Keep your notifications of all transactions in an envelope or folder, and at the end of each month enter the profits, by category if this makes sense, into the income column of your ledger.

Above all, your business ledger must be kept separate from your family ledger. Right at the start you must open a separate, business checking account to keep your business apart from your personal affairs. This is especially important if you're still employed and conducting your online business on a part-time basis only. You shouldn't mix the two together. If you do, you could encounter some problems at tax time - or later down the road when expanding, incorporating or adding a partner.

The Importance of Keeping Good Records

The importance of keeping good records cannot be overstated. Without records, you can't see in advance which way your business is headed. Up-to-date records may forecast impending disaster, forewarning you to take steps to avoid it.

At a minimum, records are important...

- at tax time
- if you want to get financing
- if you want to monitor your business's progress
- if you ever want to sell your business
- if you just want to know where your money is going

But most important, you need them to run your business successfully. With an adequate, yet simple, bookkeeping system you can answer such important questions as:

1. Are you making money, or losing it?
2. Is your business on sound financial ground, or are troubles lurking ahead?
3. How much business are you actually doing?
4. What are your expenses? Which appear to be too high?
5. What is your gross profit margin? Your net profit?
6. What is the condition of your working capital?
7. How much cash do you have on hand? How much in the bank?
8. How much do you owe your suppliers?
9. What is your net worth? That is, what is the value of your ownership of the business?
10. What are the trends in your receipts, expenses, profits? Is your financial position improving or growing worse?
11. How do your assets compare with what I owe?
12. What is the percentage of return on your investment?

Answer these and other questions by preparing and studying balance sheets and profit-and-loss statements. To do this, it is important that you record information about transactions as they occur. Keep this data in a detailed and orderly fashion and you will be able to answer the above questions.

You will also have the answers to such other vital questions about your business as: What products or services do my customers like best? Next best? Not at all? And, do I carry the merchandise most often requested?

For efficient business operation, use information from records can improve the efficiency of your business operation by helping you to keep inventory stock in line with sales, to watch and respond to trends.

A record showing the data for your business plan is the budget. Work up a budget to help you determine just how much increase in profit is reasonably within your reach. The budget will answer such questions as:

1. What sales will be needed to achieve my desired profit?
2. What fixed expenses will be necessary to support these sales?
3. What variable expenses will be incurred?

A budget enables you to set a goal and determine what to do in order to reach it. Compare your budget periodically with actual operations figures. With effective records you can do this. Then, where discrepancies show up you can take corrective action before it is too late.

If you intend to keep good financial records, the only way to do it is to develop good record-keeping habits from the very beginning. If you start off with bad habits, you'll never get back on track.

An accountant should be able to advise you on the best way to set up your books. Before you talk to your accountant, however, you may want to learn as much as you can about how to manage your own business finances. It's really not that difficult, especially if you use your computer and some simple software. A good place to start would be with a search for "business accounting" or "basic bookkeeping" on your favorite search engine.

SIDEBAR: I am no accountant and, far be it from me to advise you on how to keep your books, but I have to say after downloading and looking over dozens of financial budget schedules, cash flow projections and income balance sheets, it did seem to me that much ado was being made about nothing much. Is it really necessary to use such terms as fixed and fluid assets, fiscal liabilities, accounts receivable and payable. Basically, all you want to keep track of is how much money you're spending and what you're spending it on, as well as how much money you're earning and whether or not your earnings are covering your expenses. Seems pretty simple and straightforward to me - and I've done my best to make it so for you:-)

Don't make the all too common mistake of confusing likelihood with reality. The successful entrepreneur lives in a world of likelihood but spends money in the world of reality.

There are three steps you should take in coming up with a realistic new business budget.

1. Determine the amount of money you or your family need to keep up your current lifestyle. See Preparing A Family Budget.
2. Determine the amount of money needed to open your business. See Business Start-up Costs.
3. Determine the amount of money needed to keep your business going. See Business Operating Costs.

Preparing a Personal or Family Budget

The best way to do this is to prepare a family budget that shows where you spent your money over the last 8 - 12 months. The reason for tracking your spending this long is because expenses will fluctuate greatly from month to month. Real Estate tax bills, college tuition fees, holiday purchases, as well as unexpected expenses like car repairs or vet bills for your dog who got into your valentine's chocolates, can make some months real heavy hitters. You want to average out your typical months with your not-so-typical months, in order to get a good idea of how much you'll need to set aside - or continue to bring in - in order to maintain your current lifestyle while your building your new business.

In a perfect world, of course, your business would be profitable from day one, but alas we're living in the real world. If yours is typical of most business start-ups, you're probably going to experience at least a short period during which expenses exceed income. To play it safe you should plan on covering your cash needs for anywhere from 3 to 6 months after start up.

So get out your checkbook, open up Quicken or any other bookkeeping system you use and tally up your monthly expenses. (In going over your bills, be on the lookout extraneous expenses - like new patio furniture or a February vacation in Tahiti - that could be reduced or eliminated if necessary.) Enter your figures into the template below.

Personal - Family Budget Template

Month	**Total Income**	**Total Expenses**	**Money Left Over**
January			
February			
March			
April			
May			
June			
July			
August			
September			
October			
November			
December			
TOTALS:			

Once you've prepared your budget and determined the amount you'll need to support yourself and your family during the developmental phase of your new business, your ready to move onto Step 2: Figuring out what it's actually going to cost you to get started.

Costs of New Business Start-up

How much is it going to cost you to open your doors for business on day one?

What To Include In Your Start-up Budget?

Your business start-up budget should allow for the following expenses:

- equipment (i.e. your computer, if you're thinking of updating)
- office supplies (desk, filing cabinet, computer paper, ink cartridges etc.)
- web presence expenses (i.e. domain name registration, website design, web hosting, merchant account set-up or e-commerce storefront software or service fee
- research/training fees (if you don't already have marketable skills or expertise or want to learn how to create your own website/software)
- legal/professional fees (licenses, permits, patents or copyrights)
- insurance/accounting fees (if needed)
- miscellaneous fees (i.e. the cost of taking out a bank loan, if needed)

If you're planning on providing an online service or digitally deliverable (downloadable) product, your start-up costs should end here.

If you are going into the hard-good retail business, however, you may have to factor in the following additional costs:

- product manufacturing costs
- inventory purchase costs (if you're planning on a hardgoods retail business)
- inventory storage costs (if your product is to large to be stored at home)
- distribution arrangement costs (if you're planning on using drop-shipping or a fulfillment house)

(In the off-line world, of course, your expenses would be considerably higher, as you'd have to factor in such things as rent, occupancy, utilities etc.)

The first time you go through the costs to start up your new business, you don't need to be particularly precise. You can just "ball park" the amount to get a rough idea of your expected startup costs. This said, however, I'd advise estimating on the high side. Have you ever heard the adage about planning a trip from the U.S. to Europe: Plan what you should wear and how much it will cost, then halve the clothes and double the money. Same principle applies to starting a small business.

When you're estimate how much money you'll need, either build in some cushion by padding the numbers or go back and change your estimates every time something costs more than you thought.

Projected Business Start-up Costs

Expenses	One-Time Only	Monthly
New Equipment		
Office Supplies		
Research or Training		
Domain Name Registration		
Website Design Service or Software		
Logo Design or Banner Creation		
Web Hosting		
Merchant Account Set-up		
E-commerce Storefront Service/Software		
Third Party Credit Card Processing		
Licenses or Permits		
Insurance		
Accounting		
Copyright or Patent		
Miscellaneous		
Product Manufacturing		
Inventory Purchase		
Inventory Storage		
Product Distribution		
Miscellaneous		
TOTAL:		

Getting the Money

Now that you have computed your initial capital requirements, where do you stand? If your projected startup costs are more than you have on hand in your personal savings and more than you'll be able to earn right out of the gate, the next step is to figure out whether you can raise the difference yourself.

Borrowing Options

Perhaps consider taking out a second mortgage or selling some personal assets or possessions. Another option is to borrow from family, relatives and/or friends, who are willing to "venture" their savings in your business. Before obtaining too large a share of money from outside sources, however, remember you should retain enough personal control to assure yourself ownership.

Finding the money needed to start a new business is one of the most difficult hurdles aspiring entrepreneurs face. Commercial lenders tend to shy away from new small businesses because they believe the risks of failure are too high. They want to see a history of success and a solid credit record. Thus, a lot of small businesses that need to borrow funds to get started find themselves in a classic catch-22: the bank won't lend them money unless they have a proven track record but they can't establish the track record until they get the money.

What to do? Don't despair. If you already have a good credit relationship with a bank, you may have built the track record you need without even realizing it. If not, there is still a good chance that you can succeed in getting a loan if you're persistent and you develop a first-rate business plan. If your business plan is well thought out and well put together, you up you odds considerably.

If you are going to be asking or applying for a loan, whether from an established bank or an obliging friend or relative, it is important that the financial data in your business plan be as accurate, impressive and comprehensive as you can make it.

Some information you might want to compile and include are:

- a personal expense budget for one year
- a personal financial statement
- estimated startup costs of your business
- estimated first-year business expenses
- estimated total cash requirements
- the amount of money you can invest
- the amount of money you need to borrow
- estimated break-even point (when your profits will meet expenses)

If you can show that you have carefully worked out your financial requirements and can demonstrate experience and integrity, a bank or lending institution may be willing to finance part of your operating needs. This may be done on a short term basis of from 60 days to as much as one year.

Another possible financing solution is to look to smaller credit companies with good reputations for small business lending. Bank mergers and consolidations have forced some smaller banks to take more chances with new business ventures. Each year, the Small Business Administration publishes a report that rates commercial banks on their small business lending performance. You can get this report as well as a list of participating lenders by going to the SBA website at http://www.sba.gov, or you can contact them by phone at 1-800-827-5722.

In addition to finding information about banks and other programs that offer small business loans at the SBA website, you'll also be able to access forms, advice, training services, management counseling and other valuable small business services.

Sharing Ownership With Others

Yet another route to go, if you determine that your start-up capital needs outstretch your current means is to partner or join with one or more associates or investors to launch your venture.

Partnership

A business partnership can be a mixed blessing. On the plus side, if you lack certain technical or managerial skills which are important to the success of your business, partnering with someone who possesses those skills might be a smart move.

Bear in mind, however, that a partner who puts in time or money has a right to expect full equity in running the business. In choosing a partner, personality and character matter as much, if not more, than the whatever skills or financial assistance they bring to the business.

Also, in a partnership the liability for the debts of your business is unlimited, just as it is in a single proprietorship. This means that you and your partner, as the owners, are personally responsible for any and all debts. Also, a partnership, like a single proprietorship, lacks continuity, which means that the business may terminate upon the death of either party or upon the withdrawal of a partner.

In the real business world, there are many different types of partnerships, which involve varying degrees of participation and liability on the part of the partners - general partnerships, limited partnerships and even limited liability partnerships, but in the online world, things are much simpler. The most common form or partnership online is joint venturing.

Corporation

A corporation is a separate legal entity formed under a state corporation law. A corporation has shareholders who own stock in the company, a board of directors who have responsibility for overall management of the company and officers who run its day-to-day affairs. The continuity of a corporate legal entity is unaffected by death or transfer of stock shares by any or all of its owners.

Forming a corporation is the furthest thing from the minds of most entrepreneurs, but I am throwing it out as an option for the sake of being thorough - and because of the limited liability benefit it offers. In a corporation your liability as part owner is limited to the amount you pay for your shares of stock. Even with no partners, you could decide a corporation with minor stockholders is preferable to a single proprietorship if you are entering into an endeavor that involves considerable risk.

If you decide to look into either of the above options, you'd best consult with a lawyer to determine the best type of organization for you. You'll need one anyway to draw up the necessary partnership agreements and incorporation papers.