Capacity Building Solutions



FINANCIAL MANAGEMENT PRIMER FOR SMALL BUSINESS OWNERS

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INTRODUCTION

In my 30 years of working with CEOs and leadership teams, I have always been a bit surprised by their overall lack of financial management knowledge. It's often not that people are disinterested or lazy; rather, they prioritize other things. Finance is seen as an area that is best left to the experts. There is a general feeling that the learning curve is too steep and the knowledge too specialized for them to attain.

This overall lack of financial literacy among the "non-experts" in the company can become an issue as the business grows and requires more thoughtful and timely decision-making. It also means there may not be sufficient expertise to evaluate the advice and actions of the perceived experts.

I regularly tell my clients that business success largely comes down to people and math decisions. While the former will be a topic of another document, this primer has been written to introduce most of the financial management (math) issues a business will deal with, starting with understanding what the numbers mean. It has not been written for experts, but for everyone else in the business, so that they can get a rudimentary understanding of what's important. I hope that you find it useful.

Important: Do not make any tax decisions based on this document. Please consult a licensed tax professional, such as a CPA. *The examples assume an S corporation; depending on how your business is organized and taxed, not every recommendation will apply to you in the same way. Pages 24–25 explain the differences.*

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The Small Business Owner's Role in Financial Management

Good financial management is essential to a business's success. It means planning, organizing, controlling, and monitoring the business's money. As a small business owner, your role includes:

1. **Financial planning:**
Forecast how much money the business needs and set financial goals. Know what it costs to start and run the business, including cost of goods, operating expenses, and working capital. Then build a budget for the coming year.

2. **Record keeping:**
Keep accurate records, including income statements, balance sheets, and cash flow statements. Good records show how the business is really performing and support sound decisions.

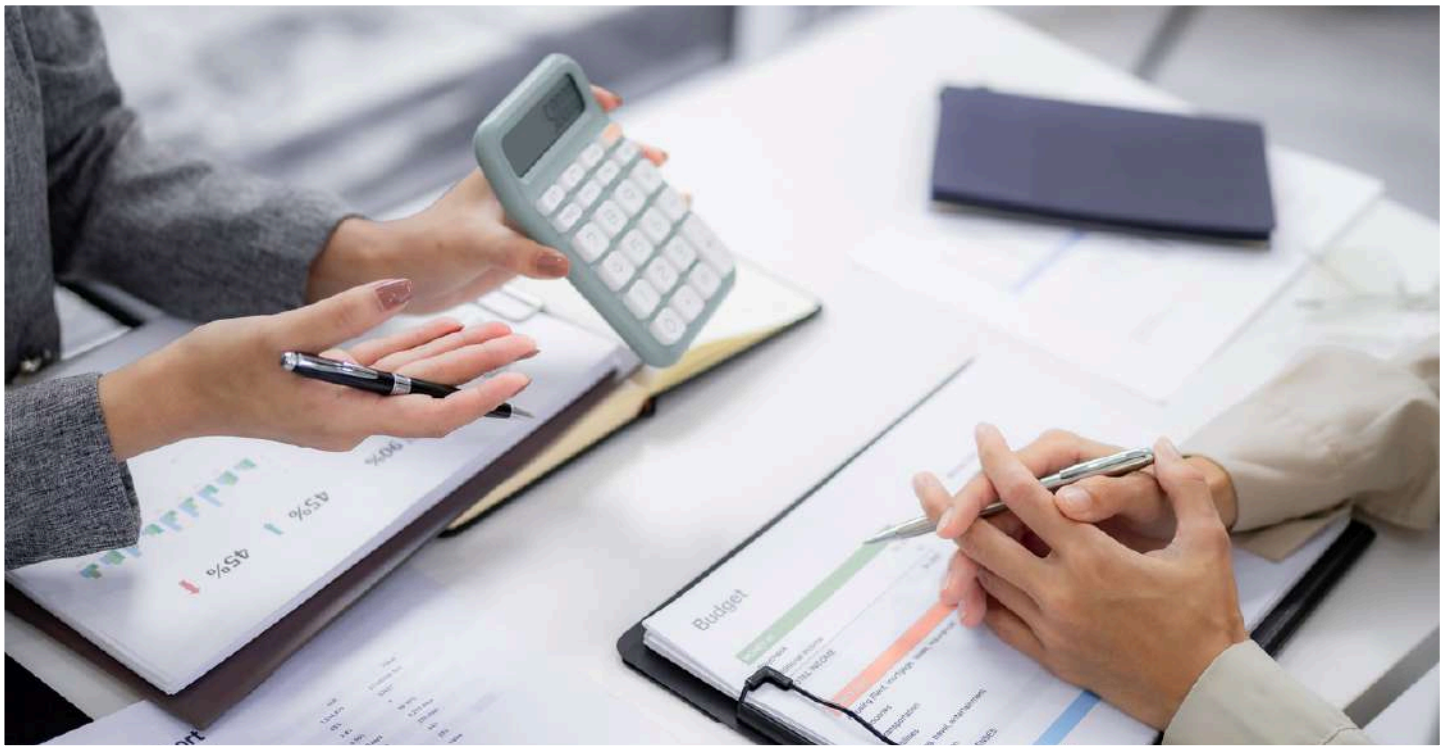
3. **Financial analysis:**
Study your records for trends and patterns. The analysis shows where to cut costs or grow revenue.

4. **Cash flow management**: Track and forecast the cash coming in and going out. Make sure there is always enough cash to pay bills and employees on time.

5. **Financial decision-making:**
Decide whether to buy new equipment, hire staff, or make other investments. Weigh the costs and benefits of each choice against the business's financial goals. Never make financial decisions emotionally or on impulse.

The owner is responsible for making sure the business has the money it needs to operate and reach its goals. Managing the finances well improves the odds of success and sets the business up for long-term growth.

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Financial Metrics to Regularly Review

Financial metrics show how healthy a business is. Make a habit of reviewing them. Some, such as revenue and cash flow, need weekly or monthly attention. Others, such as customer lifetime value, can be reviewed quarterly or annually.

Not every owner is comfortable with these metrics at first. Seek out help. Work with a financial advisor, attend industry events, or join a peer advisory group. Choosing not to understand the numbers is not a legitimate leadership excuse. This guide walks through many of these metrics, formulas, and reports, and points to resources for further learning.

Here are the important financial metrics to keep your eye on:

1. **Revenue:** The total amount of money your business makes from sales or services.

2. **Gross profit**: The revenue generated by your business, minus the cost of goods sold.

3. **Contribution margin:**
   Total sales revenue minus the variable costs associated with producing and selling your products/services (indicating the amount available to cover fixed costs and generate profit).

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4. **Net profit:**
Total revenue minus all expenses, including cost of goods sold, operating expenses, and taxes.

5. **Profit margin:**
The percentage of revenue that represents profit after all expenses are paid.

6. **Cash flow:**
The amount of cash flowing into and out of the business over a period of time.

7. **Accounts receivable turnover:**
The number of times accounts receivable are collected during a specific period.

8. **Accounts payable turnover:**
The number of times accounts payable are paid during a specific period.

9. **Inventory turnover:** The number of times inventory is sold and replaced during a specific period.

10. **Working capital:** The difference between current assets and current liabilities.

11. **Debt-to-equity ratio:** The ratio of debt to equity in the business.

12. **Return on investment (ROI):** The ratio of profit to investment.

13. **Return on assets (ROA):** The ratio of net profit to total assets.

14. **Return on equity (ROE):** The ratio of net profits to total equity.

15. **Earnings before interest, taxes, depreciation, and amortization (EBITDA):** The operating profit of the business before deductions for interest, taxes, depreciation, and amortization.

16. **Debt service coverage ratio (DSCR):** EBITDA divided by annual debt payments.

17. **Burn rate:** The rate at which the business is spending its cash reserves.

18. **Customer acquisition cost (CAC):** The cost of acquiring a new customer.

19. **Customer lifetime value (CLV):** The total value of a customer over the lifetime of their relationship with the business.

20. **Churn rate:** The rate at which customers stop doing business with the company.

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21. **Marketing return on investment (MROI):** The return on investment from marketing activities.
22. **Employee turnover rate:** The rate at which employees leave the company.
23. **Gross margin:** The difference between revenue and the cost of goods sold, expressed as a percentage.
24. **Operating expenses:** The total expenses associated with running the business, excluding the cost of goods sold and taxes.
25. **Quick ratio:** The ratio of liquid assets to current liabilities.
26. **Working capital ratio:** The ratio of current assets to current liabilities.

No single metric tells the whole story. Read the numbers in light of market conditions, competition, and regulatory changes. Where possible, compare results with industry benchmarks and with the business's own trends over time.



Numbers to Watch Monthly

Keep this page handy. Review these ten numbers every month, and watch the trend over several months, not a single result. The ranges are general guides based on common practice and the author's experience. The right target depends on your industry, so compare results with industry benchmarks and your own history.

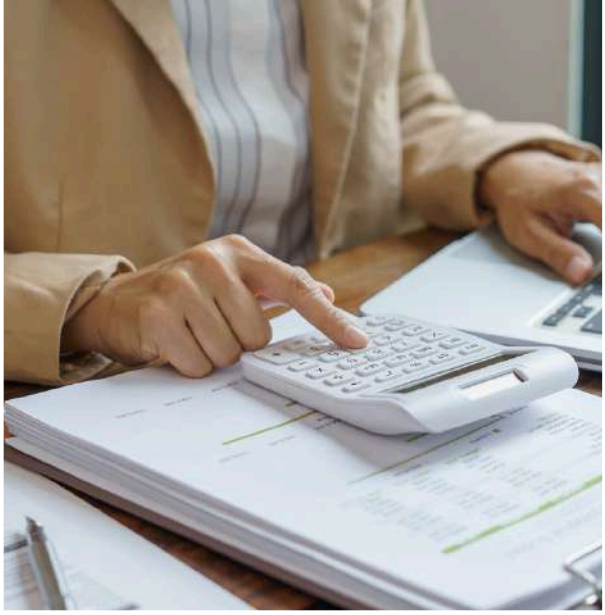
Metric	How to calculate it	Healthy range (general guide)
Cash on hand	Bank balances, in months of operating expenses	3 to 6 months of operating expenses
Revenue growth	(This period − same period last year) ÷ same period last year	At least 5–7% a year; 10%+ is above average
Gross margin	Gross profit ÷ revenue	Stable or rising; varies widely by industry
Net profit margin (pretax)	Pretax profit ÷ revenue	Positive and stable or rising; compare to industry
Current ratio	Current assets ÷ current liabilities	1.2 to 2.0
Days sales outstanding (DSO)	Accounts receivable ÷ revenue × 365	Within about 1.3 times your payment terms (e.g., under 40 days on net 30)
Days inventory outstanding (DIO)	Inventory ÷ cost of goods sold × 365	Stable or falling; varies by industry
Debt service coverage (DSCR)	EBITDA ÷ annual principal and interest	1.25 or higher
Debt-to-equity	Total liabilities ÷ owners' equity	Under 2.0 for most small businesses; lenders vary
Largest customer share	Largest customer's revenue ÷ total revenue	Under about 14% (the 1-in-7 rule)

Tip: put these ten numbers on one page in your monthly management report, with the last 12 months side by side, so trends jump out.

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Financial Statements

Financial statements are the owner's main tools for judging performance and making sound decisions.



Financial statements help owners:

- Understand your business's financial position and whether it is profitable.
- Identify areas where you can cut costs or increase revenue
- Monitor cash flow and manage working capital
- Secure financing from banks or investors
- Meet regulatory requirements
- Make sound business decisions

Review your financial statements regularly and adjust operations as needed. The statements are only as good as the records behind them, so keep those records accurate and current.

The History of Pro Forma Financial Statements

Companies use pro forma financial statements to project future performance under hypothetical scenarios. The term comes from Latin and means "as a matter of form."

Pro forma statements date to the early 20th century. Businesses used them to estimate the effect of proposed mergers, acquisitions, and divestitures. They showed investors and analysts how a deal would change the company's results.

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Over the following decades, pro forma statements became a standard tool. Companies used them to show the expected effect of investments and acquisitions, and to present their prospects to investors and lenders, including in initial public offerings (IPOs).

Their use came under scrutiny in the early 2000s. Some companies published selective "pro forma" earnings that left out unfavorable items and made results look better than standard accounting rules allowed. Investors and regulators called for more transparency.

In 2001, the Securities and Exchange Commission (SEC) warned companies about misleading pro forma figures. In 2003, its Regulation G began requiring firms to reconcile those figures to Generally Accepted Accounting Principles (GAAP). The rule made reporting more transparent and limited pro forma figures to cases where they truly add context.

Today, companies use pro forma statements to forecast performance, estimate the effect of proposed transactions, and put results in context. They must still follow regulatory rules and give investors and analysts a clear, accurate picture.



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Types of Financial Statements

Small business owners need to know three financial statements: the balance sheet, the income statement, and the cash flow statement. Each one answers a different question about the business.

1. **Balance Sheet:** The balance sheet shows a company's assets, liabilities, and equity on a specific date. Its equation is assets = liabilities + equity. It is a snapshot of financial health that shows liquidity and solvency.

2. **Income Statement:** The income statement shows revenue and expenses over a period of time. It starts with total revenue and subtracts expenses to arrive at net income. It shows how profitable the business is and how well it operates.

3. **Cash Flow Statement:** The cash flow statement shows the cash coming in and going out over a period of time. It has three sections: operating, investing, and financing activities. It shows where cash comes from, where it goes, and whether the business can meet its obligations.

Together, the three statements give a complete picture of a company's financial health. Each is described in more detail below.

Balance Sheets

As previously stated, **assets = liabilities + equity**.



Assets are resources the company owns that will produce future economic benefits. "Current" assets can be turned into cash within one year. "Non-current" assets provide benefits over a longer period. Examples include cash, accounts receivable, inventory, equipment, and property.



Liabilities are amounts the business owes to others. "Current" liabilities are due within one year; "non-current" liabilities are due later. Examples include accounts payable, loans, and accrued expenses.



Equity is what remains of the company's assets after its liabilities are paid. It includes owner contributions, retained earnings, and any other equity accounts.

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As of 12/31/25

Note: These statements describe the same hypothetical S corporation for 2025 and tie to one another. Its owners pay the income tax, so no tax expense appears. See pages 24–25 for how C corporations and LLCs differ.

Sample Balance Sheet	
Assets	
Current Assets:	
Cash and Cash Equivalents	$918,850
Accounts Receivable	$975,000
Inventory	$387,500
Short-Term Investments	$350,000
Prepaid Expenses	$45,000
Total Current Assets	**$2,676,350**
Property, Plant, and Equipment:	
Land	$250,000
Building	$775,000
Furniture and Fixtures	$83,000
Computer Equipment	$27,500
Leasehold Improvements	$85,800
Less: Accumulated Depreciation	($180,000)
Total Property, Plant, and Equipment	**$1,041,300**

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Other Assets:	
Deposits with Landlord	$75,000
Total Other Assets	**$75,000**
Total Assets	**$3,792,650**
Liabilities and Equity	
Current Liabilities:	
Accounts Payable	$415,850
Accrued Expenses	$43,570
Line of Credit	$117,200
Credit Cards	$87,600
Interest Payable	$15,700
Payroll Taxes Payable	$66,500
Current Portion of Long-Term Debt	$807,500
Total Current Liabilities	**$1,553,920**
Long-Term Liabilities:	
Notes Payable	$531,730
Long-Term Debt	$922,000
Total Long-Term Liabilities	$1,453,730

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Equity:	
Paid-in Capital	$25,000
Retained Earnings	$760,000
Total Equity	$785,000
Total Liabilities and Equity	**$3,792,650**

Income Statements

The income statement starts with total revenue, the income from selling goods or services. The cost of goods sold (COGS) is subtracted to arrive at gross profit. COGS covers the direct costs of producing what was sold, such as materials and labor.



Operating expenses are then subtracted to arrive at operating income. They include salaries, rent, utilities, marketing, and other costs of running the business. Non-operating items, such as interest income and expense or gains and losses on asset sales, are then added or subtracted to arrive at net income.

Net income shows the company's profit for the period. A positive figure means the company made a profit. A negative figure means it lost money.

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1/1/25 - 12/31/2025

Sample Income Statement	
Revenue	
Product A Sales	$4,708,000
Product B Sales	$3,550,000
Service Revenue	$2,240,000
Total Revenue	$10,498,000
Cost of Goods Sold	
Product Cost of Goods Sold (A & B)	$5,680,000
Cost of Services	$1,120,000
Total Cost of Goods Sold	**$6,800,000**
Gross Profit	$3,698,000
Operating Expenses	
Salaries and Wages	$1,609,800
Rent	$465,600
Utilities	$95,000
Transportation	$68,750
Office Supplies	**$27,750**

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Insurance	$45,500
Marketing and Advertising	$287,140
Meals & Entertainment	$39,300
Travel	$29,460
Professional Fees	$64,000
Depreciation and Amortization	$45,000
Total Operating Expenses	$2,777,300
Operating Income	$920,700
Other Income and Expenses	
Interest Income	$11,500
Interest Expense	($17,200)
Total Other Income and Expenses	($5,700)
Net Income	$915,000



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Cash Flow Statements

The cash flow statement has three sections: operating, investing, and financing activities.

1. **Operating activities:** cash in and out from the company's core operations. Inflows include cash received from customers and bank interest. Outflows include payments to suppliers, payroll, and other operating expenses.

2. **Investing activities:** cash inflows and outflows related to the purchase and/or sale of long-term assets, such as property and equipment.

3. **Financing activities:** cash in and out from funding the business. Inflows include proceeds from loans or new equity. Outflows include loan principal payments and distributions or dividends to owners.

The cash flow statement shows whether a company can generate cash and meet its obligations. Positive cash flow means more cash came in than went out; negative cash flow means the opposite. Cash and profit are not the same thing. Many growing businesses run out of cash while reporting a profit.

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Net income ties to the Income Statement; ending cash ties to the Balance Sheet.

12/31/2025

Sample Cash Flow Statement	
Cash Flows from Operating Activities	
Net Income	$915,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	$45,000
Accounts Receivable	($250,000)
Accounts Payable	$138,000
Inventory	($235,000)
Prepaid Expenses	($45,000)
Increase in Accrued Expenses	$12,000
Net Cash Provided by Operating Activities	$580,000
Cash Flows from Investing Activities	
Purchase of Property, Plant, and Equipment	($85,000)
Proceeds from Sale of Equipment	$17,850
Net Cash Used in Investing Activities	($67,150)
Cash Flows from Financing Activities	
Proceeds from Long-Term Debt	$230,000

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Repayment of Debt	($292,500)
Owner Distributions	($181,500)
Net Cash Used in Financing Activities	($244,000)
Net Increase in Cash and Cash Equivalents	$268,850
Cash and Cash Equivalents, Beginning of Year	$650,000
Cash and Cash Equivalents, End of Year	$918,850



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Cash vs. Accrual Accounting

Your financial statements can be prepared on one of two bases. The difference matters most when you talk with lenders, investors, or a buyer.

Cash basis

Revenue is recorded when cash comes in and expenses when cash goes out. It is simple and mirrors your bank account, but it can distort performance: a large customer payment in December can make a weak year look strong, and a large bill paid early can make a good month look poor.

Accrual basis

Revenue is recorded when it is earned and expenses when they are incurred, whether or not cash has changed hands. Accounts receivable, accounts payable, and accrued expenses exist because of accrual accounting. It matches revenue with the costs of producing it, which is why Generally Accepted Accounting Principles (GAAP) require it and why lenders, investors, and buyers expect it. The sample statements in this primer are prepared on the accrual basis.

Which should you use?

Many small businesses start on the cash basis, and tax rules allow it for many of them. As you grow, borrow, or plan to sell, move to accrual reporting, at least for your monthly management reports. Your CPA can often keep your tax return on the cash basis if that is allowed and advantageous.

If you report on the cash basis for now, keep a running list of what customers owe you and what you owe vendors. Reviewed monthly, those two numbers give you much of the insight that accrual reporting provides.

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How Your Business Structure Changes the Numbers

> **A note on business structure:** The sample statements in this primer assume an S corporation. Depending on how your business is organized and taxed, not every recommendation will apply to you in the same way. **Do not make any tax decisions based on this document; please consult a licensed tax professional.**

The three most common structures for small businesses are the S corporation, the C corporation, and the limited liability company (LLC). An LLC is a legal structure, not a tax status: by default, a single-member LLC is taxed like a sole proprietorship and a multi-member LLC like a partnership, but an LLC can elect to be taxed as an S or C corporation instead.

	S corporation	C corporation	LLC (default tax treatment)
Who pays income tax	Owners, on their personal returns, on their share of profit	The company, at a flat 21% federal rate plus any state tax	Members, on their personal returns, on their share of profit
Income tax on the company's income statement	Usually none (some states tax the entity)	Yes: income tax expense	Usually none (some states tax the entity)
Pay for owners who work in the business	A reasonable W-2 salary, plus distributions	A W-2 salary, plus dividends if declared	Draws or guaranteed payments, not W-2 wages
Tax on money taken out	Distributions generally not taxed again	Dividends taxed again to shareholders (double taxation)	Distributions generally not taxed again; active members usually pay self-employment tax
Equity section	Paid-in capital and retained earnings	Common stock and retained earnings	Members' equity (capital accounts)

Applied to the sample company

As an S corporation or an LLC, the sample company reports net income of $915,000, and its owners pay personal income tax on that profit. As a C corporation, it would record about $192,150 of federal income tax (21% of $915,000), reducing net income to about $722,850 before any state tax. Its balance sheet would show income taxes payable for any unpaid amount, and its cash and retained earnings would be lower by the taxes paid.

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What Your Structure Means for the Advice in This Primer

- **Cash planning (S corporations and LLCs):** Owners owe personal tax on the company's profit whether or not cash is paid out. Plan for tax distributions to owners in your cash flow forecast and cash reserve targets.
- **Cash planning (C corporations):** The company pays its own estimated taxes during the year. Build them into your 13-week cash forecast so a quarterly payment doesn't surprise you.
- **Owner pay (S corporations):** Owners who work in the business must take a reasonable salary before taking distributions. Setting it too low invites IRS scrutiny; setting it too high adds unnecessary payroll tax.
- **Owner pay (LLCs):** Members typically take draws instead of salaries, and active members usually pay self-employment tax on their share of profit. As profits grow, ask your CPA whether electing S corporation status would lower your total tax.
- **Retaining profits (C corporations):** Profits kept in the business are taxed at the corporate rate and taxed again only when paid out as dividends. That can suit a business that reinvests heavily, but paying out dividends creates double taxation.
- **Accounting method:** C corporations above an IRS gross receipts threshold must use the accrual method for taxes; S corporations and LLCs generally have more flexibility (see Cash vs. Accrual Accounting).
- **Ratios and benchmarks:** Pretax measures such as EBITDA, operating margin, ROCE, and interest coverage compare fairly across structures. After-tax measures such as net profit margin, ROA, and ROE do not: a C corporation's look lower because its income tax sits on its own books. Compare like with like.
- **Selling the business:** Structure affects how a sale is taxed. Buyers often prefer to buy assets, and for a C corporation an asset sale can be taxed twice, while S corporations and LLCs are usually taxed once. Involve your CPA well before a sale.

These are general differences, not tax advice. ***Do not make any tax decisions based on this document.*** *Tax rules change and vary by state, so please consult a licensed tax professional, such as a CPA, about your situation.*

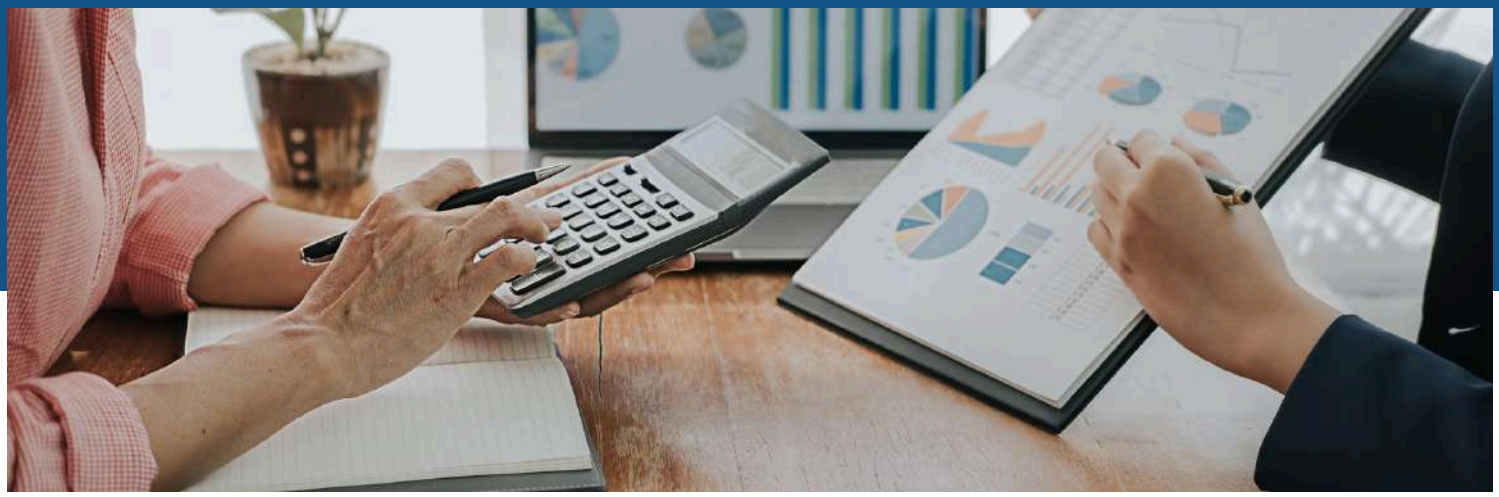
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Making Informed Financial Decisions

The financial statements in the previous chapter are powerful decision tools. Accurate statements help set priorities in these areas:

1. **Budgeting and forecasting:** Historical results and trends show where the business overspent or underspent. Adjust budgets and forecasts to match.
2. **Investments:** The company's financial position and expected returns show which investments make sense.
3. **Pricing:** The statements show which products and services earn money, which guides pricing.
4. **Operational decisions:** The statements reveal where to cut costs and work more efficiently.
5. **Performance evaluations:** The statements show how each part of the business is performing and where it needs to improve.
6. **Cash flow management:** The cash flow statement flags cash problems early, while there is still time to act.
7. **Strategic decisions:** The statements show whether a strategic move is financially feasible and fits the business's goals.
8. **Risk management:** The statements expose risks such as high debt, customer concentration, or supply chain trouble. Once a risk is visible, you can plan around it.
9. **Growth and expansion:** The statements show whether the business has the money to support growth.
10. **Capital structure decisions:** Knowing your debt capacity and the cost of debt versus equity points to the right mix of financing for the business.

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External Benchmarks for Assessing Business Performance

Many sources offer external benchmarks for comparing your business's performance. Here are a few:

1. **Industry associations:** Many trade associations collect data from their members and publish financial benchmarks. Their reports show how a business compares with industry standards.

2. **Government agencies:** Agencies such as the Small Business Administration (SBA) and the Bureau of Labor Statistics (BLS) publish data on small businesses. Some of it is broken out by company size, industry, or location.

3. **Business publications:** Publications such as Forbes, Entrepreneur, and Inc. publish industry data and general benchmarks for businesses of all sizes.

4. **Industry analysts:** Some analysts and consulting firms sell benchmarking services. They cost money, but the data and analysis can be tailored to your business.

5. **Banks:** Banks pool financial data from their clients to judge risk and make loan decisions. They also use third-party sources such as the Risk Management Association, IBISWorld, and Vertical IQ.

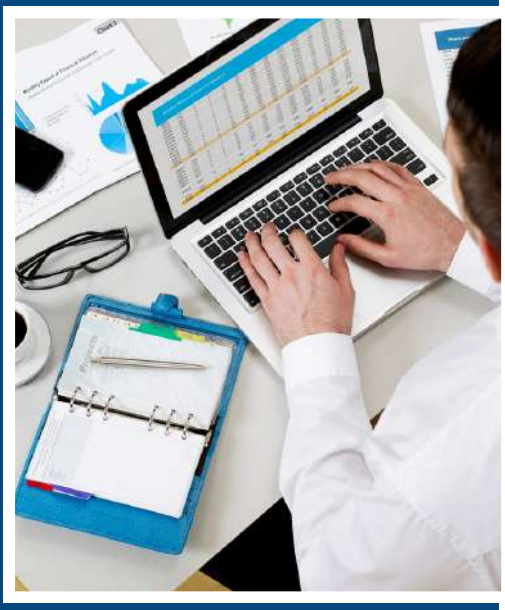
6. **Peer groups:** Owners can also form peer groups with other companies in their industry or region to share data and compare results. This works especially well for small businesses with few other benchmarking options.

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Effective Analysis Tools for Small Business Owners

Several analysis tools help owners judge the financial health of the business and make sound investment decisions. This chapter covers the most common:

- Ratio analysis
- Trend analysis
- Benchmarking
- Scenario analysis
- Financial ratio analysis



Ratio Analysis

Ratio analysis uses financial ratios to compare parts of a company's performance over time and against industry benchmarks. It shows trends and points to areas that need work.

Current Ratios:
Divide current assets by current liabilities.

For example
ABC Company has current assets of $2,676,350 and current liabilities of $1,553,920. Its current ratio is 1.72. It has 1.72 times the current assets it needs to cover its short-term liabilities. Most banks start to question a company's liquidity when its current ratio falls below 1.2.

Gross Profit Margin Example: Gross profit margin is the share of sales left after subtracting the cost of goods sold, expressed as a percentage.

For example, XYZ Company has revenue of $10,498,000 and cost of goods sold of $6,800,000. Its gross profit margin is 35.23%. Everything else, including fixed costs and net profit, has to come out of that margin.

More ratio examples appear later in this document.

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Trend Analysis

Trend analysis looks at a company's financial data over time. It shows how revenue, expenses, and profit are changing.

Examples of Trailing Twelve Months' Revenue and Profit Trend:





When it comes to revenue and profitability trends, there are four main scenarios with associated labels:

1. **Revenue and profit both trending up**: *"Manna from Heaven."* All is well; keep looking up and pressing forward!

2. **Revenue trending up but profit trending down:** "The Lion's Jaw." Be careful not to grow the company out of business.

3. **Revenue and profit both trending flat:** "The Mattress Curve." Leadership may be getting complacent.

4. **Revenue and profit both trending down:** *"Gravedigger."* Your business is in decline and in danger of insolvency.

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Benchmarking

Benchmarking compares a company's financial performance with industry benchmarks and competitors. It shows where the business is falling behind and where it can improve.

For example, Company A is a mid-sized technology firm. It wants to see how its financial performance compares with its competitors, so it gathers data on these ratios:

- **Gross Margin:** (Revenue – Cost of Goods Sold) / Revenue
- **Operating Margin:** Operating Income / Revenue
- **Net Profit Margin:** Net Income / Revenue
- **Current Ratio:** Current Assets / Current Liabilities
- **Debt-to-Equity Ratio:** Total Liabilities / Shareholders' Equity
- **Return on Equity (ROE):** Net Income / Shareholders' Equity
- **Return on Assets (ROA):** Net Income / Total Assets

Company A collects the same data for its main competitors, Companies B, C, and D. It calculates the industry average for each ratio and compares its own results with the averages.

Company A's gross margin is above the industry average, a sign of efficient production and cost control. Its operating margin is below average, so its operating expenses run higher than its competitors'. Its debt-to-equity ratio is also above average, so it relies more on debt.

Company A now knows where to focus: cutting operating expenses and reducing its reliance on debt. The comparison gives it a clearer view of its competitive position.

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Scenario Analysis

Scenario analysis models how changes in revenue, expenses, or other variables would affect a company's results. It helps owners judge investments and other major decisions. A sound practice is to model worst-case, base-case (expected), and best-case scenarios across all three pro forma statements. It also pays to test a range of values for key inputs, such as growth rate, gross margin, and pipeline close rate.

For example, Company X is considering a new product line. It wants to understand the financial effect under different conditions, so it models three outcomes: a best case, a base case, and a worst case.

1. **Best-case scenario:** Company X assumes strong demand, a high selling price, low production costs, and little competition. It projects high revenue growth, strong gross margins, and large profits.

2. **Base-case scenario:** This is Company X's most realistic view, based on its market research, industry trends, and competitor analysis. It assumes moderate demand, average prices, and normal production costs. The result is moderate revenue growth, stable gross margins, and acceptable profits.

3. **Worst-case scenario:** Company X assumes weak demand, low prices, high production costs, and fierce competition. It projects low revenue growth, lower gross margins, and possible losses.

   Company X then builds projected income statements, balance sheets, and cash flow statements for each scenario. It compares key ratios, such as gross margin, net profit margin, and return on investment, across the three.

   The comparison tells Company X whether to launch, change its strategy, or pursue something else. Knowing the risks and rewards of each scenario also lets it build contingency plans before it commits.

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Breakeven Analysis

Breakeven analysis finds the level of sales needed to cover all expenses, both fixed and variable. Every sale beyond the breakeven point produces a profit.

Breakeven analysis helps set prices and shows how many units must be sold to turn a profit. To calculate the overall business breakeven point:

1. **Determine your fixed costs:** List all fixed costs of running the business, such as rent, salaries, insurance, utilities, and other overhead. Add them up.

2. **Determine your variable costs:** List the costs that rise and fall with sales, such as raw materials, direct labor, and shipping. Find the variable cost per unit and multiply it by expected sales volume.

3. **Calculate your contribution margin:** Subtract variable costs from sales. What remains is the contribution margin, the money available to cover fixed costs and produce profit.

4. **Determine the breakeven point:** Divide total fixed costs by the contribution margin per unit. The result is the number of units needed to cover all costs.



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The formula for calculating the overall business breakeven point is:

$$\text{breakeven point} = \frac{\text{(total fixed costs)}}{\text{(contribution margin \%)}}$$

For example, a company with fixed costs of $656,000 and a contribution margin of 27% breaks even at:

$$\text{breakeven point} = \frac{\$656{,}000}{0.27} = \$2{,}429{,}629.63$$

The breakeven formula for a single product or service is similar. Divide fixed costs by the product's price minus its variable cost:

$$\text{breakeven point} = \frac{\text{(fixed costs)}}{\text{(price-variable costs)}}$$

For example, a small business has fixed costs of $10,000 a month and variable costs of $20 per unit. It sells its product for $50 per unit. The breakeven point is:

$$\text{breakeven point} = \frac{\$10{,}000}{(\$50\text{-}\$20)} = 334 \text{ units}$$

Breakeven analysis also shows how a decision would change profitability. An owner can test how new overhead, a price change, or a shift in variable costs would move the breakeven point.

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Financial Ratio Analysis

There are three main types of financial ratios: liquidity ratios, solvency ratios, and profitability ratios.

Liquidity Ratios

Liquidity ratios measure a company's ability to meet its short-term financial obligations.

1. **Current Ratio:** Divide current assets by current liabilities. The ratio shows whether the company can pay its short-term obligations from its current assets. A ratio between 1.2 and 2.0 is generally healthy, and banks start asking questions below 1.2.

2. **Quick Ratio:** Also called the acid-test ratio. Subtract inventory from current assets, then divide by current liabilities. Inventory is left out because it may not turn into cash quickly. A ratio of 1:1 or higher generally means the company has enough liquid assets to cover its current liabilities.

Solvency Ratios

Solvency ratios measure a company's ability to meet its long-term financial obligations.

1. **Debt-to-Equity Ratio:** The debt-to-equity ratio is calculated by dividing total liabilities by total equity. Lenders often count only interest-bearing debt, so ask which version they use. The ratio shows how much of the business is financed by creditors rather than owners; a lower ratio means less reliance on debt.

2. **Interest Coverage Ratio:** Divide earnings before interest and taxes (EBIT) by interest expense. The ratio shows whether the company earns enough to pay the interest on its debt. Higher is better.

3. **Debt Service Coverage Ratio (DSCR):** EBITDA divided by annual principal and interest payments. Lenders typically want at least 1.20 to 1.25.

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Profitability Ratios

Profitability ratios measure a company's ability to generate profits from its operations.

1. **Gross Profit Margin:** Divide gross profit by total revenue. The result is the share of revenue left after the cost of goods sold. The higher the margin, the more the company earns on each sale.

2. **Net Profit Margin:** Divide net income by total revenue. The result is the share of revenue left after all expenses, including interest and taxes. A higher margin means the company keeps more of each dollar it earns.

Key Financial Formulas for Business Owners

This section covers key financial formulas for evaluating the financial health of a business:



- Net Present Value
- Internal Rate of Return
- Payback Period
- Return on Investment
- Return on Assets
- Return on Capital Employed
- Weighted Average Cost of Capital

Net Present Value (NPV)

Net present value (NPV) is the present value of an investment's future cash flows minus its initial cost. It shows whether an investment is worth making.

The formula for NPV is:

$$NPV = \sum \frac{(\text{cash flow})}{(1+r)^n} - (\text{initial investment})$$

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Where:

- **Σ:** Summation
- **cash flow:** The cash inflows and outflows from the investment
- **r:** The discount rate or cost of capital
- **n:** The time period (in years) in which the cash flow occurs
- **initial investment:** The initial cost of the investment

If the NPV is positive, the investment adds value. If the NPV is negative, the investment destroys value.

For example, a company is considering investing in a new project that will require an initial investment of $75,000. The project is expected to generate cash flows of $30,000; $40,000; and $50,000 over the next three years. The company's cost of capital is 10%.

Using the NPV formula, the NPV of the investment is:

$$NPV = \frac{\$30,000}{(1+0.1)^1} + \frac{\$40,000}{(1+0.1)^2} + \frac{\$50,000}{(1+0.1)^3} - \$75,000$$

NPV=$22,896.32

Since the NPV is positive, the investment adds value.



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Internal Rate of Return (IRR)

The internal rate of return (IRR) is the discount rate that makes an investment's NPV equal to zero. It shows the investment's rate of return.

The formula for IRR is:

$$0 = \sum \frac{(\text{cash flow})}{(1+IRR)^n} - (\text{initial investment})$$

Where:

- **Σ:** Summation
- **cash flows:** The cash inflows and outflows from the investment
- **IRR:** The internal rate of return
- **n:** The time period (in years) in which the cash flow occurs
- **initial investment:** The initial cost of the investment

If the IRR is greater than the cost of capital, the investment adds value. If the IRR is less than the cost of capital, it does not.

Using the same example as above, the IRR is calculated as follows:

$$0 = \frac{\$30,000}{(1+IRR)^1} + \frac{\$40,000}{(1+IRR)^2} + \frac{\$50,000}{(1+IRR)^3} - \$75,000$$

A financial calculator or Excel solves for the IRR:

IRR=25.16%

Since the IRR is greater than the cost of capital (10%), the investment adds value.

When choosing between competing projects, rely on NPV. IRR can rank projects of different sizes or timing incorrectly, and some cash flow patterns produce more than one IRR.

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Payback Period

The payback period is how long an investment takes to earn back its cost. It is a quick check on risk and liquidity. It ignores the time value of money and any cash received after payback.

The formula for the payback period, when cash flows are the same each year, is:

$$\text{Payback Period} = \frac{\text{(initial investment)}}{\text{(annual cash flows)}}$$

The example has uneven cash flows, so add them year by year until they cover the initial investment:

$$\text{Payback Period} = 2 + \frac{\$75{,}000 - \$70{,}000}{\$50{,}000} = 2.1 \text{ years}$$

After two years the project has returned $70,000 ($30,000 + $40,000). The last $5,000 comes back in Year 3 ($5,000 ÷ $50,000 = 0.1), so payback takes 2.1 years.

Return on Investment (ROI)

Return on investment (ROI) is the return on an investment as a percentage of its cost. It measures how profitable the investment is.

The formula for ROI is:

$$\text{ROI} = \frac{\text{(net profit)}}{\text{(initial investment)}} \times 100\%$$

Where:

- **Net Profit:** The profit earned from the investment
- **Initial Investment:** The initial cost of the investment

For a one-year investment, an ROI above your cost of capital means the investment adds value. For multi-year projects, use NPV or IRR instead.

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For example, a company invests $50,000 in a project and earns a net profit of $10,000. Its ROI is:

$$\text{ROI} = \frac{\$10{,}000}{\$50{,}000} \times 100\%$$

ROI=20%

The investment earned a 20% return.

Return on Assets (ROA)

Return on assets (ROA) is net income as a percentage of total assets. It shows how efficiently a company uses its assets to produce profit.

The formula for ROA is:

$$\text{ROA} = \frac{\text{(net income)}}{\text{(total assets)}} \times 100\%$$

Where:

- **Net Income:** The company's net income
- **Total Assets:** The total value of the company's assets

A higher ROA means the company earns more from its assets.

For example, a company has net income of $100,000 and total assets of $500,000. Its ROA is:

$$\text{ROA} = \frac{\$100{,}000}{\$500{,}000} \times 100\%$$

ROA=20%

The company earns a 20% return on its assets.

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Return on Equity (ROE)

Return on equity (ROE) is net income as a percentage of shareholders' equity. It shows how well a company uses its owners' money to produce profit.

The formula for ROE is:

$$ROE = \frac{(\text{net income})}{(\text{shareholders' equity})} \times 100\%$$

Where:

- **Net Income:** The company's net income.
- **Shareholders' Equity**: The value of the company's equity

A higher ROE means the company earns more on its owners' equity.

For example, a company has net income of $100,000 and shareholders' equity of $250,000. Its ROE is:

$$ROE = \frac{\$100,000}{\$250,000} \times 100\%$$

ROE=40%

The company earns a 40% return on its shareholders' equity.



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Return on Capital Employed (ROCE)

Return on capital employed (ROCE) is operating profit (EBIT) as a percentage of capital employed. It shows how efficiently a company uses its capital to produce profit.

The formula for ROCE is:

$$\text{ROCE} = \frac{(\text{EBIT})}{(\text{total assets} - \text{current liabilities})} \times 100\%$$

Where:

- **EBIT:** Earnings before interest and taxes (operating profit)
- **Total Assets:** The total value of the company's assets
- **Current Liabilities:** The company's current liabilities

A higher ROCE means the company earns more from its capital.

For example, a company has EBIT of $140,000, total assets of $500,000, and current liabilities of $100,000. Its ROCE is:

$$\text{ROCE} = \frac{\$140{,}000}{(\$500{,}000 - \$100{,}000)} \times 100\%$$

ROCE=35%

The company earns a 35% return on its capital employed.



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Weighted Average Cost of Capital (WACC)

The weighted average cost of capital (WACC) is the blended cost of a company's debt and equity. It is the minimum return the company must earn on its investments to satisfy its investors.

The formula for WACC is:

$$WACC = (\text{cost of equity} \times \% \text{ equity}) + (\text{cost of debt} \times \% \text{ debt} \times (1 - \text{tax rate}))$$

Where:

- **Cost of Equity:** The return that equity investors require
- **% Equity:** The share of financing from equity, at target or market values
- **Cost of Debt:** The interest rate the company pays on its debt, before taxes
- **% Debt:** The share of financing from debt, at target or market values
- **Tax Rate:** The company's effective tax rate

For example, a company has a cost of equity of 20%, a cost of debt of 8%, and an effective tax rate of 25%. Its financing is 60% equity and 40% debt. Its WACC is:

$$WACC = (0.20 \times 0.6) + (0.08 \times 0.4 \times (1 - 0.25))$$

WACC=0.144 (or 14.4%)

The company must earn at least 14.4% on its investments to satisfy its investors. This is also the discount rate to use in an NPV analysis. The 10% rate in the earlier NPV example fits a larger, lower-risk company. Most small private companies face a cost of equity of 20% to 30%, which pushes WACC higher.

NPV, IRR, payback period, and ROI evaluate potential investments. ROA, ROE, ROCE, and WACC measure the financial health and performance of a business. Review the numbers regularly, and get professional advice when a decision is large or unfamiliar.

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Working Capital Metrics: DSO, DIO, DPO, and the Cash Conversion Cycle

The cash conversion cycle measures how many days your cash is tied up between paying for what you sell and collecting from customers. It has three parts. The examples use the sample statements earlier in this primer.

Metric	Formula	Sample company
Days sales outstanding (DSO): how long customers take to pay	Accounts receivable ÷ revenue × 365	$975,000 ÷ $10,498,000 × 365 = 33.9 days
Days inventory outstanding (DIO): how long inventory sits	Inventory ÷ product cost of goods sold × 365	$387,500 ÷ $5,680,000 × 365 = 24.9 days
Days payables outstanding (DPO): how long you take to pay suppliers	Accounts payable ÷ total cost of goods sold × 365	$415,850 ÷ $6,800,000 × 365 = 22.3 days
Cash conversion cycle (CCC)	DSO + DIO − DPO	33.9 + 24.9 − 22.3 = 36.5 days

This company waits about 36 days, on average, between paying for its costs and collecting cash from customers. Every day trimmed from collections frees up about $28,800 of cash ($10,498,000 ÷ 365).

To shorten the cycle, invoice promptly and follow up on late payers (lower DSO), keep only the inventory you need (lower DIO), and negotiate longer supplier terms without paying late (higher DPO).

Tip: use average balances (beginning plus ending, divided by two) when you have them. Year-end balances can be distorted by seasonality.

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Leading versus Lagging Indicators (KPIs)

Key performance indicators (KPIs) are the metrics a business uses to measure financial performance and track progress toward its goals. Leading KPIs help predict future performance. Lagging KPIs measure past performance.



Leading KPIs

1. **Sales pipeline:** the total value of potential sales that are expected to close in the future. By tracking the sales pipeline, businesses can adjust their sales and marketing strategies to achieve their goals.
2. **Sales pipeline velocity:** how quickly potential sales move through the sales pipeline. By tracking it, businesses can improve the efficiency of their sales process.
3. **Sales forecast accuracy:** how closely actual sales match forecasts. Tracking it helps businesses plan more reliably and adjust their sales and marketing strategies.
4. **Website traffic:** the number of visitors to a business's website. Rising or falling traffic often signals future changes in leads and sales.
5. **Social media engagement:** the level of engagement that a business receives on social media platforms. As with website traffic, it can signal future demand.

Lagging KPIs

1. **Revenue growth:** the percentage increase or decrease in revenue over a period of time. Revenue growth is a lagging KPI because it measures past performance, which can help show a business's overall financial health and long-term growth potential.

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2 **Gross profit margin:** the percentage of revenue that remains after subtracting the cost of goods sold. It reveals a business's profitability and the efficiency of its operations.

3 **Profit margin:** the percentage of revenue that remains after deducting all expenses. It helps business owners understand their business's profitability and financial stability.

4 **Return on investment (ROI):** the percentage return on an investment. ROI helps business owners evaluate the effectiveness of their investments and make informed decisions about future investments.

5 **Return on assets (ROA):** the amount of profit that a business generates relative to its total assets. ROA reveals a business's profitability and efficiency.

6 **Accounts receivable turnover:** how quickly a business collects payments from customers, a key driver of cash flow and financial health.

7 **Cash conversion cycle:** the time it takes for a business to convert its investments in inventory and other resources into cash from sales.

8 **Customer acquisition cost (CAC):** the cost of acquiring a new customer. Tracking CAC over time helps businesses adjust their sales and marketing spending to improve efficiency.

9 **Customer lifetime value (CLV):** the total value of a customer's purchases over their lifetime. Comparing CLV with CAC shows whether growth is profitable.

10 **Burn rate:** the rate at which a business is spending its cash reserves. It shows how long current cash will last and when spending must change.

11 **Churn rate:** the percentage of customers who stop using a business's product or service. Tracking churn helps businesses strengthen their customer retention strategies.

12 **Net promoter score (NPS):** a measurement of customer satisfaction and loyalty, determined by asking customers how likely they are to recommend a business to others.

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13 **Employee turnover rate:** the percentage of employees who leave a business over a period of time. It is an important metric for understanding employee retention and talent management.

Leading KPIs help predict future performance so a business can adjust course early. Lagging KPIs measure past results and show the business's financial health and long-term potential. Track both to see where the business has been and where it is heading.

Financial Transparency

Financial transparency means giving owners, investors, lenders, and employees accurate and complete financial information. That includes the balance sheet, income statement, and cash flow statement, along with other relevant financial data.



Financial transparency pays off for small businesses in many ways. Where research directly supports a point, the source is noted for readers who want to go deeper:

1 **Enhanced access to credit:**
Lenders and investors are more willing to fund businesses that share clear financial information. Source: Berger, A. N., & Udell, G. F. (1998). "The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle." Journal of Banking & Finance, 22(6–8), 613–673.

2 **Improved customer trust and loyalty:**
Businesses that are open about their costs and pricing earn more customer trust and loyalty, which brings repeat business. Source: Mohan, B., Buell, R. W., & John, L. K. (2020). "Lifting the veil: The benefits of cost transparency." Marketing Science, 39(6), 1105–1121.

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3 **Attracting and retaining talent:**
Many people prefer to work for companies that are open about their financial performance and stability. Transparency helps attract and keep good employees.

4 **Improved decision-making and resource allocation:**
Clear financial information leads to better decisions about where to spend time and money. Operations become more efficient.

5 **Stronger relationships with suppliers and partners:**
Suppliers and partners who understand a company's financial health are more willing to invest in the relationship. Source: Uzzi, B. (1997). "Social structure and competition in interfirm networks: The paradox of embeddedness." Administrative Science Quarterly, 42(1), 35–67.

6 **Better compliance with regulations and reduced legal risks:**
Clear, accurate records make it easier to meet regulations, avoid legal trouble, and avoid penalties.

7 **Enhanced growth and sustainability:**
Transparency shows where the business needs to improve and supports decisions that sustain growth.

8 **Increased stakeholder engagement:**
When investors, employees, and customers can see how the business is doing, they engage more. Their feedback often improves performance.

9 **Improved risk management:**
An accurate view of the financial position makes risks easier to spot and manage. The business can plan for problems before they arrive.

10 **Greater adaptability and resilience:**
Businesses with clear financial information can adapt faster when markets change. They see what needs to change and act on it sooner.

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Transparent financial reporting builds trust inside and outside the business, and sets it up for long-term success.



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Common Financial Mistakes

Small business owners face many financial challenges. Here are common mistakes and how to correct them:

1. **Not keeping accurate financial records**:
Without accurate records, tax compliance and financial reporting suffer. Set up a system for keeping records and document every transaction. Put sound financial controls and procedures in place.

2. **Not separating business and personal finances:**
Mixing personal and business money creates confusion and makes business expenses hard to track. Open a separate business bank account and credit card, and pay all business expenses from those accounts only.

3. **Not forecasting cash flow:**
Without a clear view of cash coming in and going out, it is hard to manage cash or plan ahead. Build a cash flow forecast and update it as the business changes.

4. **Not understanding the cost of goods sold:**
Owners who don't understand their cost of goods sold struggle with pricing and profit. Know the variable costs behind every product or service, and build a profit margin into each price.

5. **Not monitoring financial metrics:**
Owners who don't track their numbers make decisions in the dark. Build a dashboard of the key metrics that drive sales and profit, and review it regularly.



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6 **Not seeking professional financial advice:**
Owners who manage their finances alone, without professional advice, often make costly mistakes. Bring in an accountant or financial advisor to help manage the books and guide major decisions.

7 **Not professionally managing inventory:**
Poor inventory management ties up capital and leads to overstock or shortages. Track inventory levels and use an inventory management system to keep the right amount on hand.

8 **Not controlling expenses**:
Owners who don't understand their expenses tend to overspend and earn less. Track expenses and put controls in place. Rank expense categories on the income statement from highest to lowest, not alphabetically by account. The Pareto principle, that 80% of results come from 20% of causes, holds true in expense management: a few categories drive most of the cost.

9 **Not having a clear business plan:**
Without a clear business plan, financial decisions lack direction. Write a formal plan with goals, strategies, and financial projections.

10 **Not diversifying revenue streams:**
Relying on a single product, service, or customer leaves a business exposed to market changes. Diversify by adding products or services, entering new markets, or expanding the business. A useful rule of thumb, drawn from the author's experience, is that no single client or product should exceed 1/7, or 14.29%, of revenue in its category.

11 **Not managing debt effectively:**
Too much debt, or poorly managed debt, leads to financial strain and lower credit ratings. Build a plan to reduce debt, negotiate better rates, and pay on time. Every use of debt needs a repayment plan. A line of credit is short-term debt and should be paid off in full within a year. Avoid carrying credit card debt unless it can be paid off almost at once. If your cost of capital exceeds your profit margin, be wary of taking on more debt.

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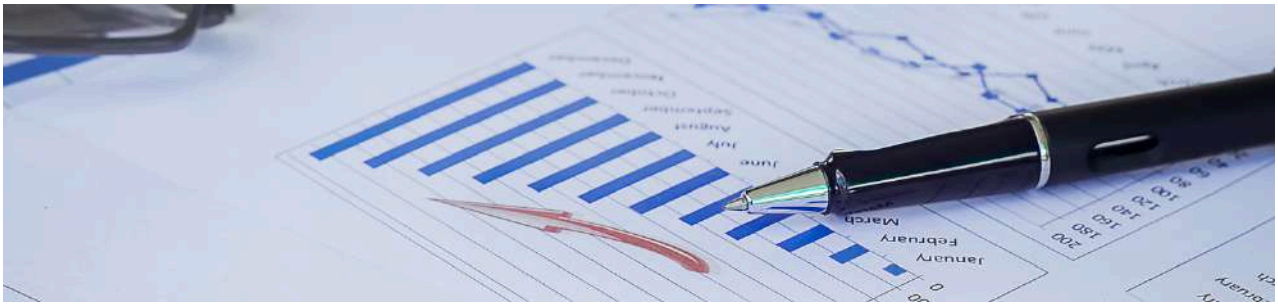
12 **Not planning for taxes:**
Owners who don't plan for taxes may not have the cash when the bill comes due. Work with a tax professional on a tax strategy, and set money aside for taxes as you earn it. Estimated payments spread the burden over the year.

13 **Not monitoring receivables:**
Unmonitored receivables lead to cash shortages and lower profit. Track receivables and follow up on late payments, especially anything past 90 days. Consider late fees for chronic late payers, or build their behavior into your pricing. Don't let the business become a lender to its customers.

14 **Not investing in the business:**
Owners who don't reinvest limit their growth and their ability to compete. Invest in technology, marketing, and training to improve operations. Know the difference between positions that create cost and positions that generate revenue. Build the organization from the "outside in," starting with the customer, not from the "inside out." Sales solves a lot of expense problems, but expense solutions rarely solve sales problems.

15 **Not adapting to changes in the market:**
Businesses that don't adapt to market changes lose revenue and profit. Stay current on industry trends and adjust strategy to stay competitive.

16 **Not managing risk effectively:**
Poorly managed risk leaves a business open to financial losses and legal liability. Identify the main risks, assess them, and plan how to reduce them. Think through bad scenarios ahead of time and decide how you would respond.



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17 **Not investing in financial management systems:**
Without good financial systems, data is hard to track and decisions suffer. Invest in financial management software, or outsource financial tasks to professionals. Too many companies still rely on manual data entry, which is slow and inefficient. Many also run too many outdated systems that don't talk to each other. The workarounds frustrate everyone.

18 **Not understanding financial reporting requirements**:
Owners who don't know their industry's reporting requirements risk non-compliance and legal trouble. Learn the requirements, and get professional advice when needed.

19 **Not planning for contingencies:**
Many owners don't plan for emergencies or unexpected expenses. When they hit, they disrupt operations and strain finances. Build contingency plans and set aside cash for surprises. Think of it as the business's "rainy day" fund.

20 **Not communicating with stakeholders:**
Poor communication with investors, lenders, and employees leads to misunderstandings and low morale. Set up regular updates and share important financial information. Stay on top of bank covenants, and tell your banker early about any significant change in the business.

Avoiding these mistakes improves performance, reduces financial risk, and sets the business up for long-term success. Review financial practices regularly, and get professional advice when a decision is beyond your expertise.

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Typical Growth Rates for Small Businesses

Healthy growth rates vary widely by industry, company size, and other factors. In the author's experience, the average small business should grow at least 5–7% a year just to cover the rising cost of doing business. Growth of 10–15% a year is above average, and 15–25% is fast growth.

Growth above 35% a year is hyper-growth. It usually strains operations and drains cash. A common target for start-ups is at least 50% growth a year for the first five years, then a return to a more normal pace, unless the company is venture or private equity backed. All of these figures can run much higher or lower depending on the business.

Some factors that can impact a small business's growth rate include:

1. **Industry:** Some industries support faster growth than others. Technology startups often grow much faster than retailers.

2. **Business model:** Businesses that scale easily, such as software as a service (SaaS) companies, can grow faster than businesses that need physical locations or heavy capital investment.

3. **Market conditions:** Economic conditions, consumer trends, and competitive factors can all impact a small business's growth rate.

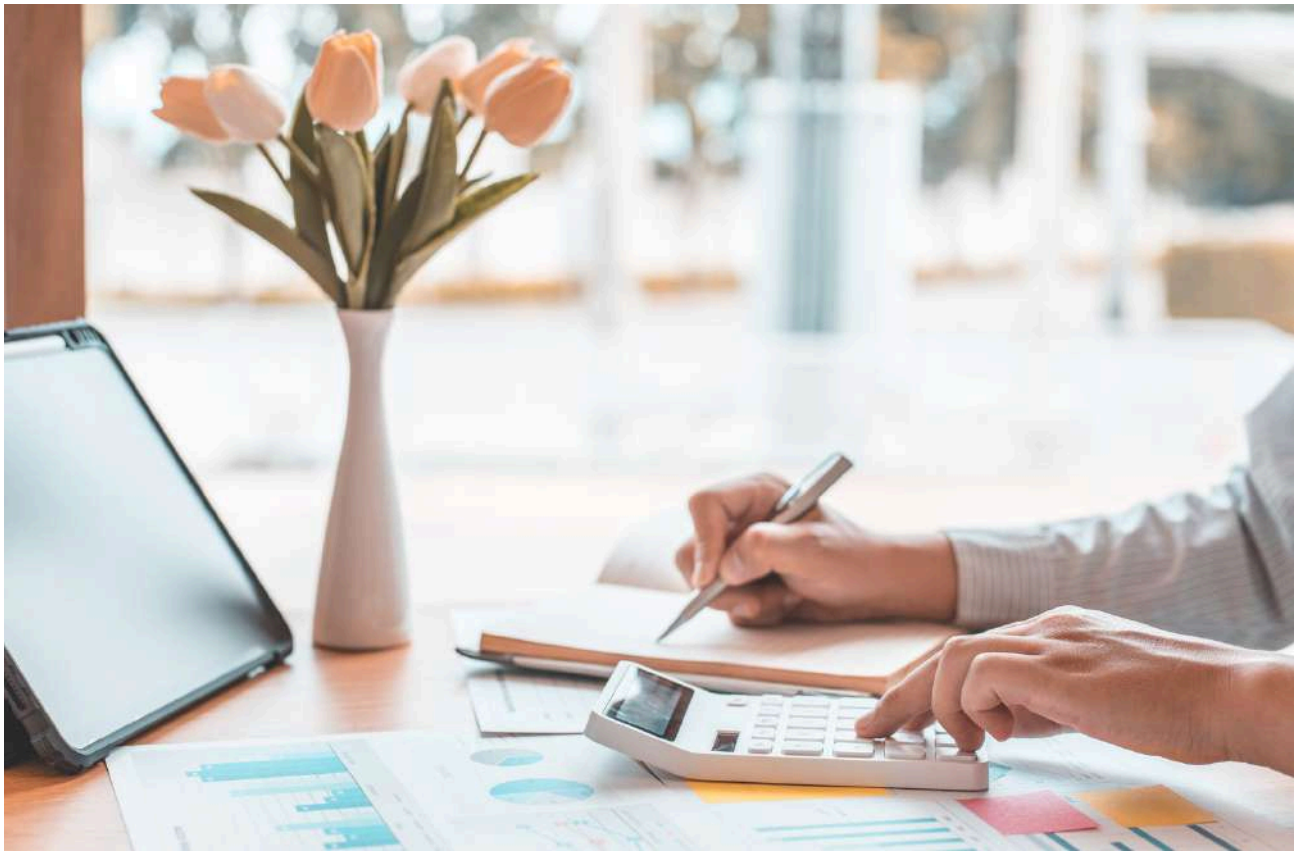
4. **Management and strategy:** The quality of a business's management team and the effectiveness of its growth strategy can also affect its growth rate.

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The right growth rate depends on the business's goals. Some owners want steady, sustainable growth. Others want to grow as fast as possible to capture market share. Work with advisors to set a growth strategy that fits your goals and your circumstances.

High growth attracts investors, but it is hard to sustain. Rapid growth brings more hiring, higher operating costs, and a need for more capital. A business that can't manage those demands runs into trouble with cash flow and profit.

Weigh the risks of chasing high growth: too much debt, overextended resources, and short-term gains at the expense of long-term health.



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The “Rule of 23” and “Rule of 40” Concepts

The "Rule of 23" comes from the pest control industry. It states that a company's year-over-year growth rate plus its net profit margin should equal 23 or more. A company that grew 10% and earned a 14% net profit margin scores 24.

Private equity investors use a similar "Rule of 40." Investors and analysts use it to judge whether a company's revenue growth justifies its spending on research and development and on sales and marketing.

The Rule of 40 calculation is based on the following formula:

Rule of 40=Revenue Growth Rate +EBITDA Margin

Here, the revenue growth rate is the percentage increase in revenue over the prior year. The EBITDA margin is earnings before interest, taxes, depreciation, and amortization as a percentage of revenue.

Under the Rule of 40, a company whose revenue growth rate plus EBITDA margin equals 40% or more is considered healthy. A company growing 20% with a 25% EBITDA margin scores 45%, a sign it is performing well.

The Rule of 40 is not a perfect measure. It ignores debt and market share. EBITDA is also not cash flow: it leaves out capital spending, changes in working capital, and taxes. Use the Rule of 40 alongside other measures to get a complete picture.



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The Effects of Fast Growth

Many businesses aim for fast growth. It can strengthen a business, and it can also strain it. Here is how fast growth may affect a small business:

Positive Effects

1. **Increased revenue:** Fast growth can lead to increased revenue for a business as it expands its customer base and market share, which can provide the resources needed to invest in further growth and expansion.

2. **Increased market share:** Fast-growing businesses can quickly gain market share in their respective industries, which can lead to a competitive advantage, increased pricing power, and improved profitability.

3. **Improved profitability:** Rapid growth can improve a business's profitability through economies of scale. As a business grows, it can negotiate better terms with suppliers, reduce its production costs, and streamline its operations. This can lead to improved profit margins and a more efficient business model.

4. **Access to capital:** Fast-growing businesses often attract new investors, which can provide the capital needed to fuel further growth. This can be in the form of equity investments or debt financing. Increased access to capital can also improve a business's valuation and provide the resources needed to make strategic acquisitions.

5. **Increased brand awareness:** Fast growth can create increased brand awareness for a business as it expands its market reach. A stronger brand can lead to increased customer loyalty and a competitive advantage in the marketplace.

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Negative Effects

1. **Cash flow issues:** Rapid growth can put a significant strain on a company's cash flow. As a business grows, it may need to invest heavily in inventory, marketing, and infrastructure to sustain its growth. If a business cannot manage its cash flow effectively, it may be forced to borrow money or issue new shares to raise capital, which can dilute shareholder value.

2. **Overexpansion:** Fast-growing businesses may be tempted to expand too quickly, which can strain their resources and lead to operational inefficiencies. Overexpansion can also lead to overcapacity, which can result in reduced pricing power and lower profitability. Businesses must be careful to balance growth with their operational capabilities to avoid this pitfall.

3. **Increased competition:** As a business grows, it may attract increased competition from other companies seeking to replicate its success. This can erode a business's market share and profitability, as competitors may try to undercut their pricing or offer similar products or services.

4. **Loss of control:** Rapid growth can lead to a loss of control over a business. As the company’s workforce expands, it may become more challenging to maintain its culture and values, leading to a loss of company identity. Rapid changes in a business’s organizational structure can also lead to communication and coordination issues.

5. **Regulatory and compliance issues:** As a business grows, it may become subject to increased regulatory and compliance requirements. This can result in increased costs and administrative burdens, which can strain a company's resources.

Fast growth is both a blessing and a curse. It can bring more revenue, better profitability, and new markets. It can also create traps. Manage cash flow carefully, avoid overexpansion, and protect the culture. Growth lasts when it is balanced against risk.

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Growing Your Revenue

Growing revenue builds a stronger, more durable business. Here are ten ways to do it:



1. **Define your unique selling proposition (USP):** Identify what sets your business apart from competitors and promote it to potential customers.
2. **Increase your marketing efforts:** Use social media, email, paid advertising, and other tactics to build awareness and drive traffic to your website.
3. **Expand your customer base:** Target new customer segments, and build relationships with existing customers to win repeat business.
4. **Enhance your sales process:** Train your sales team, build clear sales processes, and invest in sales technology.
5. **Diversify your product or service offerings:** Expand your offerings to include complementary products or services that appeal to your target market.
6. **Consider new distribution channels:** Try new ways to reach customers, such as e-commerce, partnerships, or new markets.
7. **Improve your customer experience:** Deliver excellent service, make buying easy, and create a positive brand experience.
8. **Implement pricing strategies:** Use variable pricing, discounts, or bundling to increase sales.
9. **Focus on referrals:** Ask satisfied customers for referrals, and reward them for it.
10. **Monitor your financial metrics:** Track revenue, expenses, and profit regularly, and adjust strategy to protect margins.

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Maximizing Your Profit

Revenue is not the whole picture. Here are seventeen strategies for improving profit. Test them to see which work best for your business and market.

1. **Control costs:** Review expenses regularly and cut costs where quality won't suffer.
2. **Increase efficiency:** Streamline processes to reduce waste and raise productivity.
3. **Optimize pricing:** Use data to set prices that balance profit with customer demand.
4. **Focus on high-profit products and services:** Find the products or services with the highest margins, and focus sales and marketing on them.
5. **Cross-sell and up-sell:** Offer customers additional products or services to raise revenue per customer.
6. **Improve customer retention:** Build long-term relationships to raise retention, lower acquisition costs, and win more repeat business.
7. **Develop new revenue streams:** Look for new income such as partnerships, licensing, or new products and services.
8. **Negotiate better deals:** Negotiate with suppliers, landlords, and other vendors to cut costs and improve margins.

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9. **Use technology:** Invest in technology that automates work, raises efficiency, and gives better insight into operations.

10. **Seek professional advice:** Work with financial advisors or business coaches on strategies for profit and long-term growth.

11. **Monitor cash flow:** Watch cash closely and keep cash flow positive so the business can operate and grow.

12. **Manage inventory:** Manage your inventory effectively to reduce waste and avoid overstocking.

13. **Invest in employee training:** Train employees to build their skills and productivity, which raises revenue and profit.

14. **Focus on customer service:** Deliver excellent service to win repeat business and referrals.

15. **Analyze competitors:** Study competitors to find ways to stand out and give customers more value.

16. **Expand to new markets:** Expand into new regions or customer segments to grow revenue and profit.

17. **Monitor industry trends:** Keep up with industry trends and customer behavior, and adjust strategy ahead of change.



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Maximizing Your Cash Flow

Strong cash flow gives the business the reserves it needs to operate and grow. Here are sixteen strategies for managing and improving cash flow:

1. **Monitor cash flow:** Review financial statements and projections regularly. Make sure the business can meet both short- and long-term cash obligations.

2. **Create cash flow projections:** Project expected cash in and cash out over a set period, including future cash needs as the business grows.

3. **Invoice customers promptly:** Send invoices as soon as work is delivered so customers pay sooner.

4. **Offer incentives for early payment:** Offer discounts or other incentives to customers who pay early.

5. **Set clear payment terms:** Set clear payment terms, and follow up promptly with late payers.

6. **Manage accounts receivable:** Review aging reports regularly and act quickly to collect overdue payments.

7. **Negotiate payment terms with suppliers:** Negotiate supplier terms that fit your cash cycle, and pay on time.

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8. **Control inventory:** Keep inventory lean to limit the cash tied up in unsold products.

9. **Consider financing options:** Arrange a line of credit to cover slow periods or unexpected expenses.

10. **Seek professional advice:** Work with financial advisors or business coaches on ways to improve cash flow.

11. **Delay capital expenditures:** Put off major purchases until cash flow improves, or finance them to spread out payments.

12. **Renegotiate contracts:** Renegotiate contracts with suppliers or landlords to lower costs.

13. **Reduce overhead expenses:** Cut overhead such as rent, utilities, and office supplies to free up cash.

14. **Monitor debt levels:** Monitor debt levels closely and prioritize paying off high-interest debt first.

15. **Use technology:** Use technology to automate processes and reduce administrative costs.

16. **Plan for seasonality:** Set aside cash in busy months to cover expenses in slow ones.



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Two Monthly Tools: Budget-to-Actual Review and the 13-Week Cash Forecast

Budget-to-actual review

Each month, compare actual revenue and expenses to your budget, line by line, for the month and the year to date. Focus on lines where the variance is large in both dollars and percentage, and ask why: was it timing, volume, price, or a cost running out of control? Record the reason and the action, then update your forecast.

Line item	Budget	Actual	Variance	Reason
Revenue	$875,000	$842,000	($33,000), 3.8% unfavorable	Two jobs slipped to next month (timing)
Salaries and wages	$134,000	$151,000	($17,000), 12.7% unfavorable	Overtime on rush orders (cost)
Marketing	$24,000	$19,500	$4,500, 18.8% favorable	Trade show postponed (timing)

The 13-week cash forecast

This is the tool lenders and experienced CFOs rely on when cash matters. It projects cash week by week for the next quarter: start with this week's bank balance, add expected collections (by customer, based on when each one actually pays), subtract payroll, rent, loan payments, taxes, and vendor payments, and arrive at an ending balance for each week.

Each week, roll the forecast forward one week and compare last week's projection with what actually happened. Your forecast gets more accurate over time, and you will see a cash shortfall weeks before it arrives, while you still have time to act.

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Keeping Appropriate Cash Reserves

The right cash reserve depends on the size and nature of the business, its industry, and its goals. A common rule of thumb is to keep at least three to six months of operating expenses in cash. That cushion carries the business through a recession, a natural disaster, or the loss of a major customer.

Some businesses need more. Seasonal businesses and those that depend on a few large customers should hold a bigger reserve against revenue shortfalls. Businesses with stable revenue and low overhead can often hold less.

Industry factors and the owner's goals also matter. An accountant or financial advisor can help set the right target.

Once you know the target, build the reserve and keep it there. These strategies help:

1. **Establish a budget:** A budget is the first step. It shows where money comes from and where it goes, and where to cut costs or raise profit.
2. **Monitor cash flow:** Review cash flow regularly and act when it weakens.
3. **Reduce debt:** Paying down debt frees up cash for the reserve.
4. **Set savings goals:** Set a savings target and build toward it, for example by setting aside a fixed share of profit each month or quarter.
5. **Automate savings:** Set up automatic transfers from the operating account to a reserve account.
6. **Consider alternative financing options:** Angel investors and venture capital are better suited to funding growth than to sitting in reserve. A line of credit, arranged while business is strong, is usually a better backstop for lean periods.

A reserve built steadily in good times protects the business when the unexpected arrives.

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Making Good Financial Decisions

Sound financial decisions drive small business success. These factors lead to better ones:

1. **Data-driven decision-making:**
   Base decisions on accurate, relevant data. Track cash flow, revenue, expenses, and margins regularly so you see the full picture.

2. **Strategic alignment:**
   Financial decisions should support the business's strategy and goals. Consider how each one affects long-term growth and profit.

3. **Risk management:**
   Every decision carries risk. Identify and plan for market swings, downturns, and unexpected expenses.

4. **Cost-effectiveness:**
   Compare costs and benefits, and favor the options most likely to earn a strong return.

5. **Collaboration:**
   Involve the finance team and other stakeholders. Different perspectives catch blind spots.

6. **Continuous improvement:**
   Review how decisions turned out, and refine the process over time.

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7 **Understanding of financial statements:**
Know your financial statements well enough to read and interpret them on your own.

8 **Flexibility:**
Conditions change. Be ready to adjust plans when markets shift or the unexpected happens.

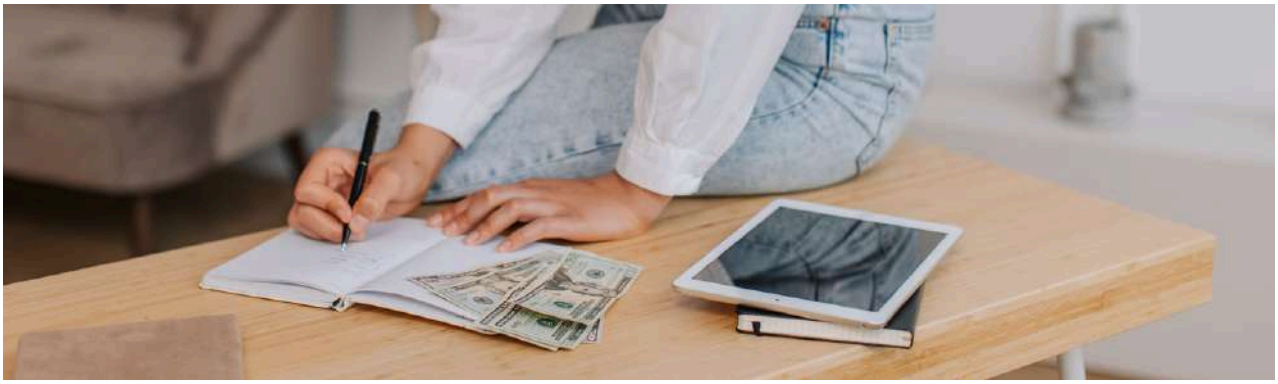
9 **Timing:**
Time decisions to fit the business's cash flow and revenue cycles.

10 **Focus on the big picture:**
Weigh the long-term health of the business, not just short-term gains or losses.

11 **Communication:**
Share financial information and decisions clearly and regularly with the finance team, stakeholders, and employees.

12 **Transparency:**
Explain decisions and the reasons behind them. Openness builds trust.

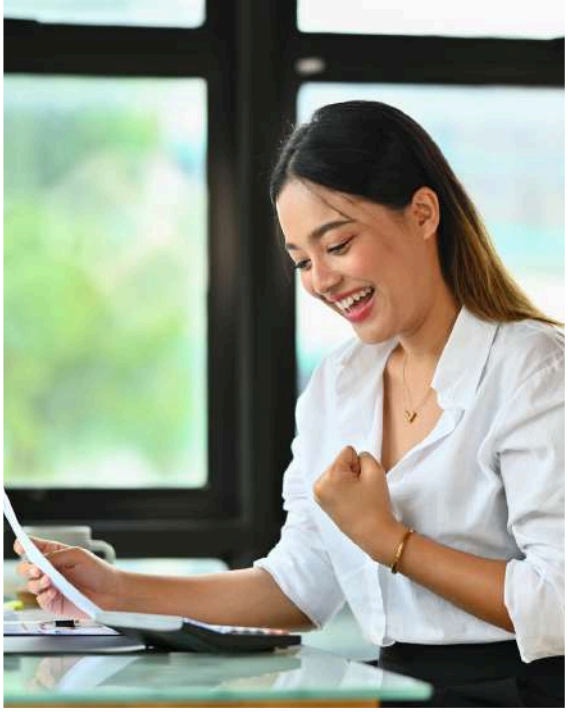
These factors improve decisions over time. Good financial decision-making takes discipline, collaboration, and a steady commitment to getting better.



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Making Good Pricing Decisions

Getting the price right matters. Price too high and customers walk away. Price too low and you leave money on the table and erode profit. Keep these points in mind when setting prices:



1. **Understand the market:**
   Before setting prices, research the market and what similar products cost. Study competitors' pricing and watch for trends.

2. **Consider your costs:**
   Count the full cost of producing and delivering the product: direct costs such as materials and labor, and indirect costs such as marketing and overhead.

3. **Determine value to the customer:**
   Understand what customers value, such as quality, convenience, and reputation, and what they will pay for it. Price to be both profitable and competitive.

4. **Test and adjust as you go:**
   Pricing is not a one-time decision. Test and adjust it to hit revenue and profit goals. Try discounts, subscriptions, or tiered pricing, and watch the effect on sales and margins.

5. **Monitor the market:**
   Watch for shifts in customer behavior and competition. Adjust prices to stay competitive.

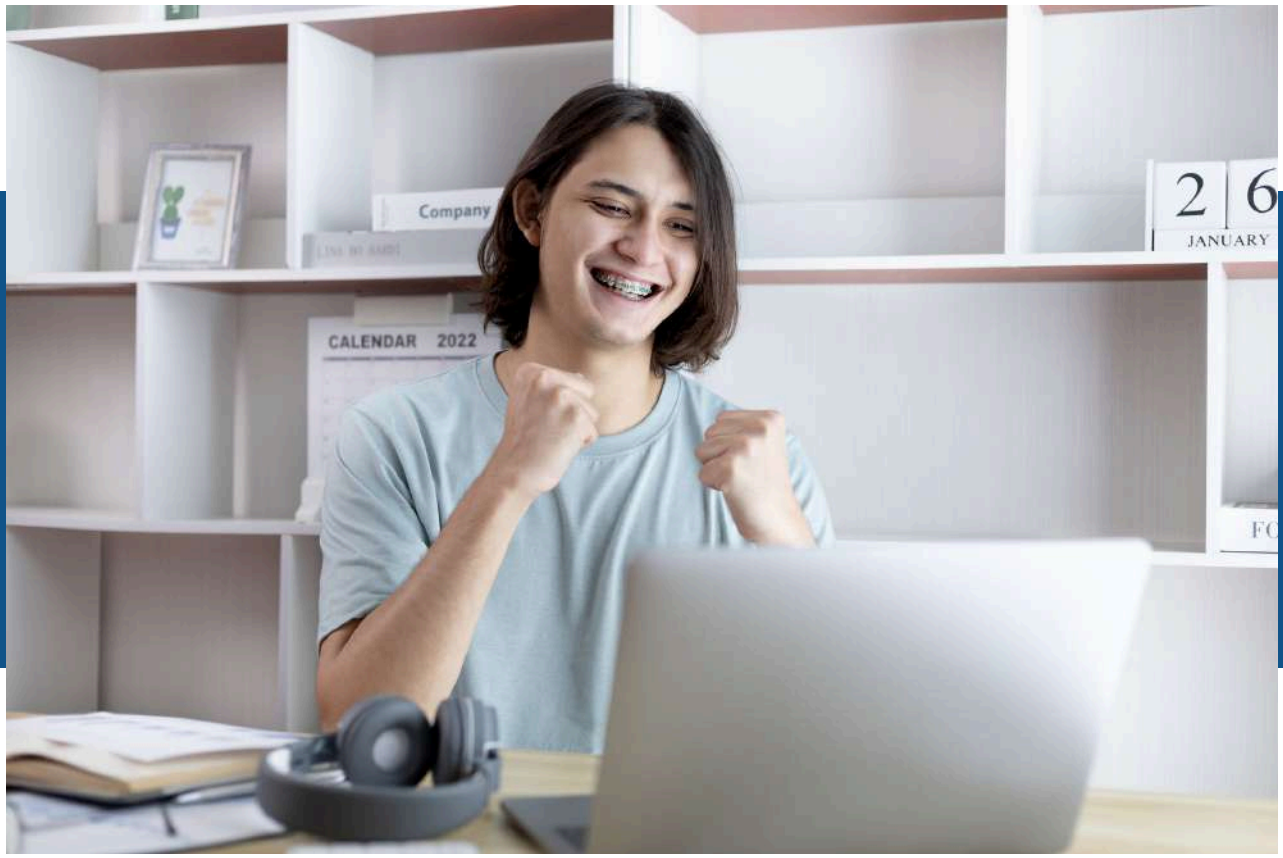
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6 **Consider the elasticity of demand:**
Elasticity of demand is how much a price change affects sales. When customers are very price-sensitive, prices may need adjusting more often to stay competitive.

7 **Implement dynamic pricing:**
Dynamic pricing changes prices as demand, competition, or other factors change. It works well in highly competitive or volatile markets.

8 **Offer bundles or packages:**
A discount for buying several products or services together raises perceived value and revenue per sale.

9 **Monitor the Competition:**
Track competitors' pricing regularly. It reveals trends and shows when to adjust.



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Communicating with Customers

Explain your pricing to customers, and be open about how prices are set. Clear communication builds trust and loyalty and sets the business apart from competitors.



Here are some strategies for communicating with customers about pricing:

1. **Provide clear and accurate pricing information:**
   Customers should always know exactly what they are paying, including all fees and charges. Clear pricing avoids confusion and builds trust.

2. **Explain the value proposition:**
   Explain how the price connects to what customers get. When customers understand the value, they accept the price and trust the brand.

3. **Be transparent about costs:**
   Help customers understand what it costs to produce and deliver the product. Openness builds trust.

4. **Offer clear payment terms:**
   Spell out payment terms, including any discounts, financing, or incentives, so customers know what they owe.

5. **Solicit customer feedback:**
   Ask customers what they think of your pricing. Their answers sharpen pricing over time.

Clear pricing communication builds trust and loyalty, which protects revenue and profit. Be clear about prices, explain the value, and be open about costs.

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Taking on Business Debt

When does business debt make sense? Small businesses borrow to grow, expand, buy equipment, or cover short-term cash needs. Debt also carries risk, so review the business's finances carefully before borrowing.

Here are some situations when it may be advisable to take on debt:

1. **Growth opportunities:**
   Debt can fund growth, such as entering new markets, launching products, or expanding marketing.
2. **Capital expenditures:**
   Debt can fund new equipment, technology, or facility improvements that raise efficiency and productivity.
3. **Cash flow needs:**
   When slow-paying customers or seasonal swings squeeze cash, short-term debt can bridge the gap.
4. **Low interest rates:**
   Low interest rates make borrowing for growth or equipment more attractive.
5. **Tax benefits:**
   Interest on business debt is typically tax-deductible, which lowers the after-tax cost of borrowing. Larger businesses face a cap on the deduction; your CPA can confirm whether it applies to you.

Before borrowing, make sure the business can repay. Review current and projected cash flow, revenue, and profit. Consider how the debt affects the business's financial health and credit, along with the factors above.

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Types of Business Debt

Small businesses have several types of debt to choose from. Match the type to the need. Common options include:

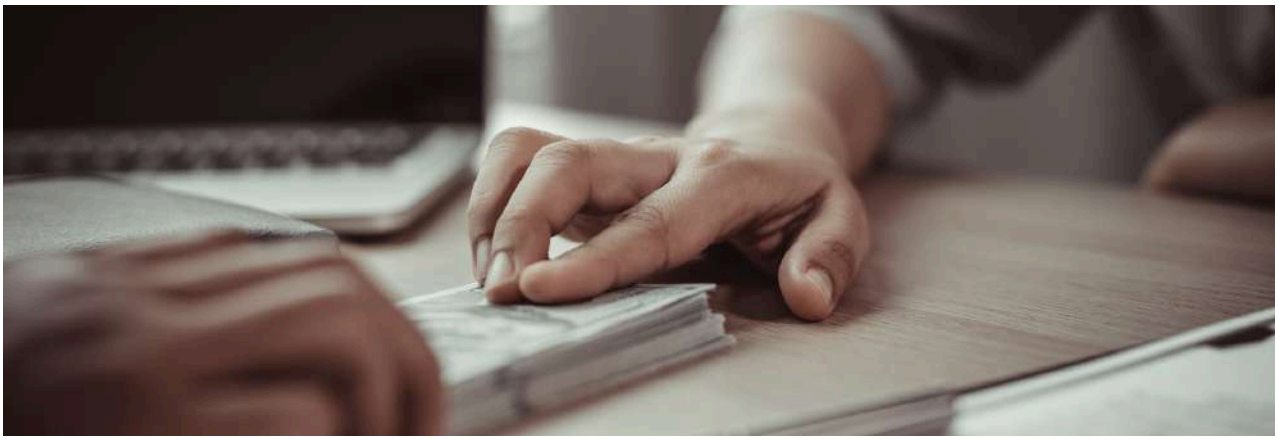
1. **Bank loans:**
   Bank loans usually carry lower interest rates than other debt. They may require collateral or a personal guarantee from the owner.

2. **Business credit cards:**
   Business credit cards are convenient for small purchases and recurring expenses. Like personal cards, they usually carry higher interest rates.

3. **Equipment financing:**
   An equipment loan is secured by the equipment it buys. It suits large purchases and spreads payments over time.

4. **Lines of credit:**
   A line of credit is revolving debt to draw on as needed. It suits short-term cash needs and unexpected expenses.

Debt can fund growth or cover short-term cash needs. Before borrowing, review the business's finances, weigh the risks and benefits, and choose the right type of debt. Consider how it affects your credit and your ability to borrow later. Pay on time and protect your credit so financing is available when the business needs it.



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Potential Debt Pitfalls

Debt is a powerful tool, but it carries risk. Mismanaged debt can seriously harm a business. Avoid these pitfalls:

1. **Taking on too much debt:**
   Borrowing more than the business can comfortably repay risks default and damages its credit rating.

2. **Not understanding the terms of the debt:**
   Know every term of the debt: interest rate, repayment schedule, and fees. Have your banker or lender walk through them at closing.

3. **Failing to monitor debt levels:**
   Debt can pile up unnoticed. Using more than half of a credit line, or maxing out credit cards, is a major red flag unless it was planned.

4. **Misusing debt funds:**
   Using borrowed money for something other than its purpose can leave the business unable to repay. Never borrow to pay the owner a salary the business cannot afford.

5. **Ignoring debt payments:**
   Missed payments bring late fees, penalties, credit damage, and possible legal action.

6. **Not having a plan to repay debt:**
   Without a repayment plan, debt lingers and stress builds. Hope is not a strategy, and interest compounds. Small, steady payments beat none at all.

Manage debt deliberately. Build a debt plan tied to cash flow and revenue projections. Monitor debt levels, negotiate good terms with lenders, pay on time, and build strong credit so financing is there when you need it.

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Managing Your Debt

Beyond avoiding those pitfalls, these steps keep debt under control:

1. **Prioritize debt repayment:**
   Make regular payments, even if it means cutting other expenses.

2. **Consider consolidation:**
   If the business has several debts with different rates and schedules, consider combining them into one loan with a lower rate and better terms.

3. **Build a cash reserve:**
   A cash reserve carries the business through surprises and reduces the need for new debt.

4. **Seek professional advice:**
   An accountant or financial advisor can help manage debt and build a sound financial strategy.



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Using Arbitrage to Advantage

Arbitrage means profiting from price differences between markets or assets with little risk. In small business borrowing, the same idea compares an investment's expected return with the cost of the loan. A positive spread means the return exceeds the cost of borrowing. A negative spread means borrowing costs more than the investment returns.

For example, a small business is considering a bank loan for a new project. The loan costs 6% a year, and the business expects the project to return 8% a year. The spread is a positive 2% (8% − 6%). On paper the loan pays for itself, but the margin for error is thin. The same comparison works across types of debt, such as a term loan versus a line of credit, or short-term versus long-term borrowing. Compare each option's cost with the expected return and choose the one that fits best.

Unlike true arbitrage, this is not risk-free. The project's return is an estimate, while the loan payments are fixed. Treat the spread as a first screen. Test what happens if the return comes in lower, and get professional advice before any major financial decision.



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Treasury Management

Treasury management is the work of managing a company's cash flow, liquidity, and financial risk. For small businesses, it is central to stability and success.



Effective treasury management for small businesses involves several key activities:

1. **Cash management:**
   Manage cash coming in and going out so the business can always meet its obligations. This covers receivables and payables, cash forecasts, and cash reserves.

2. **Investment management:**
   Put surplus cash to work at low risk, for example in short-term securities.

3. **Risk management:**
   Identify and manage risks that could hurt financial stability, such as interest rate, credit, or currency risk. Larger companies sometimes use financial instruments to hedge them.

4. **Banking relationships:**
   Strong relationships with banks are central to treasury management. They help in negotiating loan terms, managing accounts, and keeping up with changes in banking rules and practices.

A main goal of treasury management is to manage working capital (current assets minus current liabilities), which funds day-to-day operations. Well-managed working capital improves cash flow and reduces the need for short-term borrowing.

Good treasury management lowers the cost of capital and raises returns. Negotiating good loan terms and investing surplus cash in low-risk, short-term investments both improve profit and stability. It also reduces exposure to financial risk.

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Staffing Your Finance Department

Once a business is large enough to need a finance department, staffing it well is central to managing its finances. Depending on the size and complexity of the business, the department may be one person or a team with different skills and duties.

Here are some key factors to consider when making finance department staffing decisions:

1. **Business size and complexity:**
   Size and complexity drive staffing needs. A small, simple business may need only a part-time bookkeeper or accountant. A larger, more complex one may need a full-time CFO, accountant, and financial analyst.
2. **Expertise and skills:**
   Required skills depend on the business. Look for strong accounting, analysis, and reporting skills, plus experience with the relevant software.
3. **Budget:**
   Weigh the costs of hiring full-time employees versus outsourcing certain financial functions, such as bookkeeping or tax preparation.
4. **Growth Potential:**
   Staff for where the business is going. People who have managed growth and scaling can be critical to long-term success.
5. **Training and development:**
   Train finance staff so they have the skills to manage the business's finances well.

Beyond hiring, put strong processes and systems in place. Invest in accounting software, set financial controls, and review reports regularly for accuracy and compliance.

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Additional Staffing Considerations

1. **Clearly define roles and responsibilities:** Define each finance employee's role so everyone works toward the same goals. Set clear performance and behavior expectations, and KPIs that define success in each role. Clear roles prevent confusion and gaps.

2. **Implement financial controls and procedures:** Controls keep financial data accurate, timely, and secure. Use checks and balances, internal controls, and regular report reviews. Never let the same person pay the bills and reconcile the bank account. When one person controls both, fraud becomes far too easy.

3. **Use accounting software:** Accounting software is a cost-effective way to streamline work and improve accuracy. Choose software that is scalable, easy to use, and integrates with other business systems.

4. **Regularly review financial reports:** Review the cash flow statement, income statement, and balance sheet regularly to keep the business on track and catch problems early. Ask your lead financial person or outside expert for a one- to two-page summary with each set of reports. It should flag anything that needs your attention.

5. **Provide training and development opportunities:** Keep finance employees' skills current through conferences, courses, certifications, mentoring, or coaching.

A strong finance department comes from the right people, sound processes and systems, and ongoing training.

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Protecting Your Cash: Payment Fraud Controls

Payment fraud, including fake invoices and emails that impersonate a vendor or an executive, is one of the most common and costly threats to small businesses. These controls stop most of it:

- **Two-person approval:** Require a second person to approve every wire transfer and every new vendor before its first payment.
- **Call-back verification:** When a vendor asks to change its bank details, call the vendor at a phone number you already have on file, never one provided in the request.
- **Separate duties:** The person who pays bills should not also reconcile the bank account or set up new vendors.
- **Monthly bank reconciliation:** Reconcile every bank and credit card account each month, and have the owner review the reconciliation.
- **Positive pay:** Ask your bank about positive pay and ACH debit blocks, which flag checks and withdrawals you did not authorize.
- **Limited access:** Give employees only the banking permissions they need, and use multi-factor authentication on every financial account.
- **A trained team:** Teach staff to slow down on urgent payment requests, especially ones that arrive by email or text, and to verify before they pay.

None of these controls is expensive. Most fraud succeeds because one person can move money without anyone else looking.

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Finance Department Size Guidelines

The right size for a finance department depends on the size and complexity of the company's finances. In the author's experience, these ranges are a reasonable starting point:

1. **Small businesses:**
   Under $5 million in annual revenue, one or two finance staff may be enough. This may include a bookkeeper, accountant, or part-time CFO.

2. **Medium-sized businesses:**
   Between $5 million and $50 million in annual revenue, the department may need three to five people. This may include a controller, a financial analyst, and accounting clerks.

3. **Large businesses:**
   Above $50 million in annual revenue, the department may need six to ten people. This may include a CFO, controller, financial analysts, and accounting clerks.

These are general guidelines. Actual needs vary with the company's industry, complexity, and financial management needs. Plan for growth, too: the finance department may need to expand as the company grows.



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Finance Department Roles

These are the most common roles in a finance department. A business may need one or several of them.

1. **Chief Financial Officer (CFO):**
The CFO leads the finance department and owns financial strategy, reporting, and financial risk management.

2. **Controller:**
The controller runs the accounting systems, financial reporting, and compliance with accounting standards and regulations. The role oversees the financial statements, tax compliance, and internal controls. In nonprofits, the role is often called "comptroller," and it focuses less on the bottom line and more on where funds come from and how they are used.

3. **Financial Analyst:**
A financial analyst studies financial data, builds models, and gives management the insight it needs to decide. The role requires strong analytical skills and command of modeling and forecasting. As businesses collect more data, this role matters more every year.

4. **Accounts Payable Clerk:**
The accounts payable clerk pays invoices accurately and on time, and keeps accurate records of every payment.

5. **Accounts Receivable Clerk:**
The accounts receivable clerk issues invoices accurately and on time, and collects payments from customers.

6. **Payroll Specialist:**
The payroll specialist runs payroll, pays employees accurately and on time, and keeps accurate compensation records.

7. **Tax Accountant:**
The tax accountant manages tax compliance, files returns accurately and on time, and advises management on tax planning.

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8

Treasury Analyst:
The treasury analyst manages cash flow, keeps enough cash on hand to meet obligations, and manages the company's investments.

9

Financial Planning and Analysis Manager:
The financial planning and analysis (FP&A) manager builds forecasts and budgets, analyzes results, and gives management the insight it needs to decide.

10

Internal Auditor:
The internal auditor tests whether financial controls are working, identifies risks, and recommends improvements.



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Controllers vs. CFOs

The controller and the CFO are both key financial roles, but their scope differs. The controller runs day-to-day accounting. The CFO provides strategic financial guidance and manages the organization's overall financial performance.

Here are some key differences between the Controller and CFO positions:

	Controller	Chief Financial Officer (CFO)
Responsibilities	Manages the organization's accounting operations including financial reporting, accounts payable and receivable, payroll, and tax compliance.	Provides strategic financial guidance, including financial planning and analysis, budgeting, forecasting, and risk management.
Scope of work	Focuses on day-to-day financial operations.	Manages the organization's overall financial performance and provides financial guidance to senior management.
Level of Authority	Reports to the CFO or a senior accounting executive.	Reports directly to senior management or the Board of Directors.
Education and Experience	May have a degree in finance or accounting. Experience may be chiefly focused on accounting operations and financial reporting.	Experienced in finance, accounting, or business administration. May hold an MBA or other advanced degree and has extensive experience in financial management and strategy.

Many small businesses can't afford both roles and rely on one or two people to run their finances. As the business grows and becomes more complex, a dedicated controller or CFO often becomes necessary.

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The right hire depends on the business's needs. The table below compares the two roles.

If your business fits this profile...	...hire a Controller	... hire a CFO
Experiencing rapid growth or expansion, and needs someone to set a financial strategy and manage risks		X
Is experiencing “big picture” financial challenges that require significant expertise and a strong background in finance or accounting		X
Has a larger salary budget and can afford to hire a senior executive		X
Struggling with financial operations, and needs someone to streamline accounting practices and ensure compliance with financial regulations	X	
Is experiencing day-to-day financial challenges that require focused experience in financial management, analysis, and compliance	X	
Has a smaller salary budget and cannot afford to hire a senior executive	X	

The ideal Controller candidate has these qualities:

- experience managing accounting operations, preparing financial reports, and ensuring regulatory compliance
- strong analytical and problem-solving skills
- experience with accounting software and tools
- ideally, a CPA certification

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The ideal CFO candidate should have:

- experience in financial planning and analysis, budgeting, forecasting, and risk management
- approach their work with more of a strategic mindset
- strong communication and leadership skills

Consider cultural fit. Both roles must work well with other departments and explain financial information clearly.

Outsourcing some financial functions is another option. It can be cost-effective, help with compliance, and free internal staff for other work.

Your Business's Economic Value: Indicative Factors

Look at the business the way an outside investor or analyst would. If an investment banker or buyer were evaluating the business, these are the factors they would examine:



- **Financial performance:**
  These metrics include revenue growth, profitability, and cash flow.
- **Industry and market trends:**
  Is the business well positioned for industry trends, including market size, growth potential, and competition?
- **Management team:**
  Does your business's management team hold appropriate experience and industry expertise?
- **Intellectual property:**
  Does the business own intellectual property, such as patents, trademarks, or copyrights?

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- **Customer base:**
  Does the business retain its customers well? Is there room to expand?

- **Product or service offering:**
  How much room is there to innovate or differentiate the products or services?

- **Sales and marketing strategy:**
  Is the marketing strategy working? Are current campaigns successful, and is there room to grow?

- **Supply chain and distribution channels:**
  How does the business source and deliver its products? Are there inefficiencies or risks?

- **Operational efficiency:**
  Does the business run efficiently? Where could it improve or save money?

- **Legal and regulatory compliance:**
  Does the business comply with all relevant regulations? Are there risks or liabilities?

- **Brand recognition:**
  Is the brand well known and well regarded? Are there risks or opportunities?

- **Financial stability:**
  Is the business financially stable, and will it stay that way?

- **Growth potential:**
  How much can the business grow? Are there opportunities in new markets or product lines?

- **Customer satisfaction:**
  Are customers satisfied? Where could satisfaction improve?

- **Employee satisfaction:**
  Are employees satisfied? Are there staffing or retention risks or opportunities?

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How Buyers Put a Price on a Business

The factors on the previous pages shape what a buyer will pay. The price itself usually comes from multiplying a measure of earnings by a multiple that reflects risk and growth.

- **Choose the earnings measure:** Larger businesses are usually valued on EBITDA. Smaller, owner-operated businesses are often valued on seller's discretionary earnings (SDE): EBITDA plus the owner's salary and benefits, since a new owner could take that compensation for themselves.
- **Normalize the earnings:** Buyers adjust, or "add back," one-time and personal expenses, such as a lawsuit settlement, the owner's personal vehicle, or above-market rent paid to a property company the owner controls. Document every add-back, or the buyer will ignore it.
- **Apply a multiple:** The multiple reflects how much risk a buyer sees and how much growth they expect. As an example only: a business with $900,000 of adjusted EBITDA valued at 4 to 6 times EBITDA would be worth $3.6 million to $5.4 million. Multiples in that range are common for established small businesses, but actual multiples vary considerably with industry, size, growth rate, profitability, customer concentration, dependence on the owner, recurring revenue, the quality of the financial records, and market conditions. Treat any rule of thumb as a starting point, not a valuation.
- **Expect a quality of earnings review:** Serious buyers hire accountants to test your numbers in a quality of earnings (QoE) review. Clean, accrual-based, CPA-reviewed financial statements make this faster and protect your price.
- **Know the deal terms:** Most deals are "cash-free, debt-free": the seller keeps the cash and pays off debt at closing. Buyers also set a normal level of working capital, called a peg; if you deliver less at closing, the price goes down.
- **Start early:** Improving the factors that drive your multiple takes years, not months. If a sale is in your future, start preparing now, and get a professional valuation before you negotiate.

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Increasing the Financial Literacy of Your Leadership Team

A leadership team that understands the numbers makes better decisions, improves performance, and stays aligned on strategy. Here are ways to build that skill:



1. **Provide financial education:**
   Give the leadership team articles, videos, webinars, or books on finance. Tailor them to specific topics, such as budgeting, financial analysis, or risk management.

2. **Encourage participation in financial management:**
   Involve leaders in budgeting, analysis, and forecasting. Hands-on work teaches the concepts and shows how they affect the business.

3. **Conduct regular financial reviews:**
   Review the financial statements with the leadership team regularly. Discuss trends and performance. Regular reviews take the mystery out of the numbers and put decisions in context.

4. **Establish financial metrics:**
   Set metrics and KPIs tied to the business's goals and values. The team learns how performance is measured and why it matters.

5. **Promote a culture of financial responsibility:**
   Set clear expectations for financial management, and reward leaders who meet financial goals.

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6 **Provide ongoing support:** Offer coaching, training, or outside resources to leaders who want to strengthen their financial skills.

7 **Use financial software:** Use software that automates financial work, shows real-time data, and produces easy-to-read reports. Better information leads to better decisions.

8 **Bring in external experts:** Bring in accountants, financial advisors, or consultants for added expertise. This helps most when the business has no dedicated finance team.

9 **Foster collaboration:** Encourage open communication and shared information between leadership and finance. Collaboration builds trust and keeps decisions aligned with the business's goals.

10 **Develop a financial strategy:** Build a financial strategy that supports the business strategy. It sets priorities and directs money where it matters most.

11 **Encourage questions:** Invite leaders to ask questions about the statements, budgets, and other financial information. Questions clear up confusion and build shared understanding.

12 **Provide real-world examples:** Use real examples from the business to explain financial concepts. Real examples make the numbers easier to grasp.

13 **Use visual aids:** Use charts, graphs, and tables to show financial data and trends. Visuals make the numbers easier to digest.

14 **Provide feedback:** Give leaders feedback on their financial work. Feedback reinforces good habits and shows where to improve.

15 **Foster a learning culture:**
Offer ongoing education and professional development so leaders stay current on financial trends and practices.

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16 **Establish financial policies and procedures:**
Write clear financial policies and procedures that set expectations and guide decisions.

17 **Set financial goals:**
Set financial goals that support the business's strategy and vision. Goals give financial work focus and direction.

18 **Monitor financial performance:**
Review financial performance regularly and adjust as needed to stay on track toward the goals.

19 **Develop a financial contingency plan:**
Plan ahead for downturns, natural disasters, supply chain disruptions, and other shocks.

20 **Regularly communicate financial updates:**
Share financial updates regularly with leaders and other stakeholders. Openness builds accountability.



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Reference List: Financial Dos and Don’ts

Use this list as a quick refresher on sound financial principles.

Financial Dos	Financial Don'ts
Build a budget and stick to it.	Don't skip the budget or stop tracking expenses.
Review cash flow regularly and adjust as needed.	Don't ignore cash flow problems. Fix them before they grow.
Make a plan to pay down debt, and pay it off as soon as you can.	Don't take on debt without a clear repayment plan.
Build a strong business credit profile.	Don't leave business credit unmanaged.
Review the financial statements and key ratios every month.	Don't ignore the statements and ratios. They show the true health of the business.
Use technology and automation to cut costs and work faster.	Don't rely on manual work that software does better.
Build and keep a cash reserve for unexpected expenses.	Don't wait for a crisis to start saving cash.
Review and adjust pricing regularly.	Don't underprice. Low prices erode profit.
Invest in keeping the customers you have.	Don't chase new customers at the expense of current ones.
Set a growth strategy that fits the business's goals and values.	Don't pursue growth at any cost. Protect the business's financial health.
Hire a finance professional, or outsource finance work, to keep the books accurate and compliant.	Don't make financial decisions on emotion or assumptions. Do the analysis first.
Keep a cash flow forecast to spot shortfalls early.	Don't skip forecasting and long-range planning.
Measure the return on every marketing dollar.	Don't skip internal controls. Separate duties to prevent fraud and errors.
Use data to spot trends and guide decisions.	Don't depend on one customer or supplier for a large share of revenue or supply.

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Have a CPA review your financial statements each year; arrange a full audit if lenders or investors require one.	Don't skip a disaster recovery plan for natural disasters, cyberattacks, and other disruptions.
Work with a tax professional to meet deadlines, avoid penalties, and claim every deduction and credit.	Don't underestimate how taxes affect cash and profit.
Focus on profit, not just revenue. Track gross and net margins.	Don't skip strategic planning. Tie financial goals to the mission and vision.
Manage inventory to speed turnover and cut excess stock.	Don't skimp on training. Build financial literacy across the team.
Keep improving processes to raise efficiency and cut costs.	Don't ignore the economy, regulation, and competition.
Communicate openly with investors, lenders, and suppliers to build trust.	Don't hesitate to get professional advice on major financial decisions.



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Evaluating Your Business's Financial Health: Questions to Ask

These questions point to areas for improvement and support data-driven decisions about financial health and growth.

1. Revenue growth: How has your revenue grown over the past year? Are you consistently hitting your revenue targets?

2. Profit margin: What is your profit margin? Can you keep it healthy while investing in growth?

3. Cash flow: Is cash flow positive? Can you pay bills on time and still invest in growth?

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4. Debt-to-equity ratio: What is your debt-to-equity ratio? Are you carrying too much debt, or too little to fund growth?

5. Return on investment (ROI): What return do you earn on marketing, advertising, and other investments? Is it positive?

6. Customer acquisition cost (CAC): What is your CAC? Can you win new customers at a reasonable cost?

7. Customer retention rate: What is your customer retention rate? Do customers come back?

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8. Brand recognition: How well known is your brand? Do you stand out from competitors?

9. Employee satisfaction: How satisfied are your employees with their jobs and the company? Can you attract and keep top talent?

10. Innovation: How innovative is your business? Are you investing to stay ahead of market changes?

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Final Thoughts

Here's a summary of key points from this primer to consider for small business financial success:



1. **Know your numbers:**
Understand your balance sheet, income statement, and cash flow statement, and review them every month. They are the foundation for every other financial decision.

2. **Watch a short list of key metrics:**
Track a handful of metrics monthly, such as revenue growth, gross margin, cash, days sales outstanding, and debt service coverage, and act on the trends.

3. **Manage cash before profit:**
Profitable companies still fail when they run out of cash. Keep a 13-week cash forecast and a cash reserve, and arrange a line of credit while business is strong.

4. **Plan and compare:**
Build an annual budget and compare actual results to it each month. Ask why big variances happened and adjust.

5. **Price for profit:**
Know your costs and breakeven point, and price on the value you deliver. Small price changes have an outsized effect on profit.

6. **Use debt deliberately:**
Borrow for things that earn more than they cost, match the loan term to the life of the asset, and keep debt payments well within your cash flow.

7. **Manage working capital:**
Invoice promptly, collect on time, hold only the inventory you need, and negotiate fair payment terms with suppliers.

8. **Protect your cash and your records:**
Separate financial duties, require two-person approval for payments, reconcile accounts monthly, and get an annual outside review from a CPA.

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9

Grow on purpose:
Pursue growth your cash and team can support, avoid depending on any one customer, and build the value of your business with an eventual sale in mind.

10

Get the right help:
Staff the finance function for your size, and lean on your CPA, attorney, banker, and advisors for decisions outside your expertise, especially tax decisions.

Overall, small business financial success comes from understanding your numbers, planning ahead, and acting on what you learn. Start with the basics, build a monthly rhythm of review, and improve one area at a time.

Continuously monitoring and adjusting your financial strategies as market conditions and your business change will keep them relevant and effective over time.



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Further Resources

This chapter offers tools for gauging your comfort with financial topics, assessing your business's financial position, and building your financial knowledge.

Self-Assessment: Gauging Your Small Business's Financial Health

This self-assessment shows where your business is financially strong and where it needs work, such as managing debt, collecting receivables, and reinvesting for growth. It also shows how well the business can adapt to changing markets. Use the results to decide where to act first.

Read each question and select your answer.

1. How would you rate the overall financial health of your business?

Very Poor	Poor	Neutral	Good	Excellent
○	○	○	○	○

2. How confident are you in your ability to manage cash flow?

Completely Unconfident	Somewhat Unconfident	Neutral	Somewhat Confident	Completely Confident
○	○	○	○	○

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3. How well do you understand your business's financial statements (e.g., income statement, balance sheet, cash flow statement)?

Not at All	Only a Little	Neutral	Fairly Well	Completely
○	○	○	○	○

4. How satisfied are you with the profitability of your business?

Completely Unsatisfied	Somewhat Unsatisfied	Neutral	Somewhat Satisfied	Completely Satisfied
○	○	○	○	○

5. How much debt does your business have?

Overwhelming Debt	Significant Debt, but Under Control	Some Debt, but Under Control	Very Little Debt	No Debt
○	○	○	○	○

6. How well do you feel your business is positioned to weather unexpected financial challenges (e.g., economic downturn, major expense)?

Completely Unprepared	Somewhat Unprepared	Neutral	Somewhat Prepared	Completely Prepared
○	○	○	○	○

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7. How confident are you in your ability to make informed financial decisions for your business?

Completely Unconfident	Somewhat Unconfident	Neutral	Somewhat Confident	Completely Confident
○	○	○	○	○

8. How effectively does your business manage its expenses?

Very Poorly	Not Very Well	Neutral	Fairly Well	Very Well
○	○	○	○	○

9. How often do you review and adjust your business's financial goals and budget?

Never	Rarely	Occasionally	Often	Always
○	○	○	○	○

10. How satisfied are you with the level of financial support and resources available to your business (e.g., access to capital, accounting services, financial advisors)?

Completely Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Completely Satisfied
○	○	○	○	○

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11. How much of your business's revenue is dedicated to paying off debt?

More than 75%	50-75%	25-50%	Less than 25%	None
○	○	○	○	○

12. How well does your business manage its inventory levels?

Very Poorly	Not Very Well	Neutral	Fairly Well	Very Well
○	○	○	○	○

13. How confident are you in your ability to forecast revenue and expenses for your business?

Completely Unconfident	Somewhat Unconfident	Neutral	Somewhat Confident	Completely Confident
○	○	○	○	○

14. How often do you monitor and analyze your business's financial performance?

Never	Rarely	Occasionally	Often	Always
○	○	○	○	○

15. How satisfied are you with the level of financial transparency and communication within your business?

Completely Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Completely Satisfied
○	○	○	○	○

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16. How frequently do you analyze your business's profitability and cash flow metrics?

Never	Rarely	Annually	Quarterly	Monthly
○	○	○	○	○

17. How comfortable are you with taking on debt to finance your business's growth?

Not at All	Only a Little	Neutral	Fairly Well	Completely
○	○	○	○	○

18. How well does your business manage its accounts receivable?

Very Poorly	Not Very Well	Neutral	Fairly Well	Very Well
○	○	○	○	○

19. How much of your business's revenue is reinvested back into the business for growth and development?

None	Less than 25%	25-50%	50-75%	More than 75%
○	○	○	○	○

20. How confident are you in your business's ability to adapt to changing market conditions and industry trends?

Completely Unconfident	Somewhat Unconfident	Neutral	Somewhat Confident	Completely Confident
○	○	○	○	○

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Scoring Your Self-Assessment

Give each answer a score from 1 to 5, counting from the far left (1) to the far right (5) of each row. Add your scores for all 20 questions for a total between 20 and 100.

Total score	What it means	Suggested next step
80 to 100	Strong financial management.	Keep your monthly review rhythm and work on your lowest-scoring questions.
60 to 79	A solid foundation with some gaps.	Pick the two or three lowest-scoring areas and set a 90-day improvement plan for each.
Below 60	Financial management needs priority attention.	Meet with your CPA or a financial advisor to set up monthly financial statements, a budget-to-actual review, and a 13-week cash forecast.

Filling this in on screen? Click one answer per question, and your score fills in here.

Your score: **Your result:**

Questions answered:

Reading your results

Your lowest scores matter more than your total. A single score of 1 or 2 on cash flow, debt, or forecasting can put the business at risk even when the total looks healthy.

Questions 17 (comfort with taking on debt) and 19 (how much revenue is reinvested) have no single right answer. The best response depends on your industry, growth plans, and risk tolerance, so discuss them with your advisor rather than reading too much into the number.

Retake the assessment every six to twelve months, and ask members of your leadership team to complete it too. Differences in how people answer are often more revealing than the scores themselves.

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Answering the above questions will have given you some insight into areas where your business may need more help, or where you need to increase your own financial knowledge. The following sections provide resources that may be useful to you and your team.

Increasing Your Financial Management Knowledge: Book List

- **Business Analysis and Valuation: Using Financial Statements, Text and Cases**
  by Krishna G. Palepu and Paul M. Healy. A guide to analyzing financial statements, including valuation and forecasting.
- **Financial Accounting: An Introduction to Concepts, Methods, and Uses**
  by Clyde P. Stickney, Roman L. Weil, and Katherine Schipper. An introduction to financial accounting concepts, financial statements, and financial reporting.
- **Financial Analysis and Modeling Using Excel and VBA**
  by Chandan Sengupta. A practical guide to financial analysis, forecasting, and modeling in Excel.
- **Financial Intelligence for Entrepreneurs: What You Really Need to Know About the Numbers**
  by Karen Berman and Joe Knight. A practical guide to understanding the financial side of running a business and making informed financial decisions.
- **Financial Management for Nonprofit Organizations: Policies and Practices**
  by John Zietlow, Jo Ann Hankin, and Alan Seidner. A comprehensive guide to budgeting, financial reporting, and fundraising for nonprofit organizations.
- **Financial Planning & Analysis and Performance Management**
  by Jack Alexander. A practical guide to budgeting, forecasting, and performance management.



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- **Profit First: Transform Your Business from a Cash-Eating Monster to a Money-Making Machine**
  by Mike Michalowicz. A simple cash-management system that sets profit aside first and builds discipline around spending.
- **Simple Numbers, Straight Talk, Big Profits!: 4 Keys to Unlock Your Business Potential**
  by Greg Crabtree. An owner-focused guide to profit, owner pay, labor productivity, and cash.
- **The Art of M&A Due Diligence: Navigating Critical Steps and Uncovering Crucial Data**
  by Alexandra Reed Lajoux. Insights into due diligence for mergers and acquisitions, including financial analysis, legal considerations, and risk management.
- **The Art of Pricing: How to Find the Hidden Profits to Grow Your Business**
  by Rafi Mohammed. Pricing strategies for growing businesses, including value-based pricing.
- **The Art of Profitability**
  by Adrian Slywotzky. A conversational tour of the business models that drive profitability.
- **The Balanced Scorecard: Translating Strategy into Action**
  by Robert S. Kaplan and David P. Norton. A framework for linking financial and operational measures to strategy and tracking progress toward strategic goals.
- **The CFO Guidebook**
  by Steven M. Bragg. A practical guide to the CFO role, including financial reporting, budgeting, and strategic planning.
- **The Entrepreneur's Guide to Financial Statements**
  by David Worrell. A practical guide to balance sheets, income statements, and cash flow statements for small business owners.
- **The Essays of Warren Buffett: Lessons for Corporate America**
  by Warren Buffett, edited by Lawrence Cunningham. Buffett's letters to shareholders, offering insight into capital allocation, financial management, and the mindset of a successful CEO.
- **The Lean CFO: Architect of the Lean Management System**
  by Nicholas Katko. How CFOs can use lean principles to streamline financial processes and build a more efficient organization.
- **The Small Business Owner's Manual: Everything You Need to Know to Start Up and Run Your Business**
  by Joe Kennedy. A comprehensive guide to starting and running a small business, including financial management, marketing, and operations.

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- **Valuation: Measuring and Managing the Value of Companies**
  by Tim Koller, Marc Goedhart, and David Wessels (McKinsey & Company). The standard reference on valuing companies, including financial analysis, forecasting, and modeling.
- **Writing Business Plans That Get Results: A Step-by-Step Guide**
  by Michael O'Donnell. A step-by-step guide to creating a business plan, including financial projections and budgeting.

Increasing Your Financial Management Knowledge: Helpful Websites

- **AllBusiness:** Advice for small business owners, including financial management tips, accounting guides, and financial planning resources.
  https://www.allbusiness.com/
- **AICPA & CIMA:** The professional association for CPAs. Its guide to CPA services explains how CPAs can help small businesses.
  https://www.aicpa-cima.com/resources/download/guide-to-cpa-services
- **Business Insider:** News and analysis on business and finance, including small business coverage.
  https://www.businessinsider.com/



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- **Entrepreneur:** Advice on starting and running a small business, including financial management and planning.
  https://www.entrepreneur.com/
- **Financial Times:** News and analysis on markets, business, and finance.
  https://www.ft.com/
- **Forbes:** News and analysis on business and finance, including financial planning.
  https://www.forbes.com/
- **Harvard Business Review:** Research-based articles on management and strategy, including finance.
  https://hbr.org/
- **Inc.:** Insights and advice for small business owners, including financial management best practices.
  https://www.inc.com/
- **Investopedia:** Articles and tutorials explaining financial terms, analysis, and modeling.
  https://www.investopedia.com/
- **Kiplinger:** Advice on personal finance, investing, and small business finance.
  https://www.kiplinger.com/
- **National Federation of Independent Business (NFIB):** Resources and advocacy for small business owners, including guides on finance and tax.
  https://www.nfib.com/
- **NerdWallet:** Guides on small business banking, loans, bookkeeping, and budgeting.
  https://www.nerdwallet.com/business
- **QuickBooks:** Accounting software maker with a library of free articles and guides on small business finance.
  https://quickbooks.intuit.com/
- **SCORE:** Free business mentoring and workshops, including financial management and planning.
  https://www.score.org/
- **Small Business Administration (SBA):** Federal guidance on managing business finances, loans, and programs.
  https://www.sba.gov/business-guide/manage-your-business/manage-your-finances
- **SmartAsset:** Financial advice and calculators, including tools for small business owners.
  https://smartasset.com/

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- **The Motley Fool:** Investment advice and resources, including content for small business owners.
  https://www.fool.com/
- **Zoho Books:** Accounting software with invoicing, expense tracking, and financial reporting tools.
  https://www.zoho.com/books/



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Top 25 Financial Management Tools for Small Business Owners

Revenue ranges are rough guides; many of these tools serve a wide range of company sizes.

Small businesses (roughly under $10 million in revenue)

1. **QuickBooks:** accounting software for managing finances, tracking expenses, creating invoices, and generating financial reports.
2. **Xero:** cloud-based accounting software with bank reconciliation, inventory management, and payroll features.
3. **FreshBooks:** cloud-based accounting software for invoices, expenses, time tracking, and project management.
4. **Zoho Books:** accounting software for invoicing, expense tracking, and financial reporting.
5. **Gusto:** payroll software for managing employee payments, benefits, and payroll tax filings.
6. **Google Sheets:** a spreadsheet program for budgets, forecasts, and financial analysis.
7. **Fathom:** financial analysis and reporting software that turns accounting data into reports and dashboards.
8. **Trello:** a project management tool that can track tasks, deadlines, and budgets.
9. **Wrike:** a project management tool for managing tasks, deadlines, and project budgets.
10. **Acuity Scheduling:** an online scheduling tool for booking appointments, managing availability, and taking payments.
11. **HubSpot:** marketing and sales software that can track marketing spend and return on investment.

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Growing companies (roughly $10 million to $50 million)

12 **Sage Intacct:** cloud accounting and financial management software with strong multi-entity reporting.

13 **NetSuite:** cloud-based ERP software covering accounting, inventory, and reporting.

14 **Microsoft Dynamics 365:** ERP software for financial management, accounting, and reporting.

15 **Salesforce:** customer relationship management software for tracking sales and pipeline.

16 **Tableau:** data visualization software for analyzing financial data and building visual reports.

17 **Workday Adaptive Planning:** planning software for budgeting, forecasting, and scenario planning.

Larger companies (roughly $50 million and up)

18 **SAP ERP:** enterprise software for financial management, accounting, and reporting.

19 **Oracle ERP Cloud:** enterprise software for financial management, accounting, and reporting.

20 **Workday Financial Management:** cloud-based software for accounting, financial reporting, and revenue management.

21 **IBM Planning Analytics:** planning software for forecasting, budgeting, and scenario planning.

22 **Anaplan:** planning software for forecasting, budgeting, and scenario planning.

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Learning resources

23 **Investopedia:** online articles, tutorials, and courses on finance and accounting.

24 **Coursera:** online courses and certificates in financial management and analysis.

25 **Harvard Business Review:** articles, case studies, and research on management, including finance.



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