Small Business #1

What can I do to prepare my small business for the generation to come?

The process of passing a family business onto the second generation is so difficult that not even a third of them survive. Beyond that, roughly half make it to a third generation. In a normal day in the U.S., 40 percent of businesses are confronted with a change of owners. Those who have founded the companies are struggling to find remedies, but there aren't many options. A few possible remedies to this problem are to sell off the company; end the business completely; remain as the owner, but contract others to manage; or keep ownership and management within the family. The most common causes for failure of the transition of the small business are as follows:

- There is no strategy.
- The business is missing energy.
- The owner lacks the motivation to change the business.
- The coming generations are not interested in working with the business.

The main reason for closure is not having a strategy. If planned properly, the business has no reason to worry.

How do I create a successful strategy for passing on my family business?

The family must do the following to attempt to have a worthwhile transition:

- Formulate a strategy focused on the family.
- Formulate a strategy focused on the business.
- Make a Succession Plan, which includes setting dates for retirement and the training for who will follow.
- Make an Estate Plan.

These are the four key points to a successful business transfer. They basically guarantee a transition for years to come within your family when implemented correctly.

What is a strategy focused on the family?

The purpose of the family strategy is to keep a well-functioning business. The policies for the role of the family in relation to the company are set in this strategy. There may be policies for entering and exiting the workforce of the business. It should incorporate the basic guidelines as well as a mission statement that explains what is important to the family. The strategy needs to take into consideration who in the family would like to have significant roles in the business and who would like less responsibility.

What is a strategy focused on the business?

A strategy focused on the business permits each new member of the family to establish their own future for the company. To make sure that everyone has the same idea as to where the business is headed, there is a need to formulate goals. The strategy should concentrate on the future of the company at a particular date.

What is involved in a Succession Plan?

The purpose of the succession plan is to aid those who founded or are in control of the company through the transition. It should explain the details of how to know when the next generation is ready to take over and the process for that transition.

What is contained in an Estate Plan?

The plan for the estate is vital for the company and family. In the end, without a strategy, there will be higher estate taxes than needed, which in turns gives less to the successors. This plan should be in accordance with the succession plan to ensure the transition of the business is done in the most tax effective way.

Do I have what it takes to own and manage my own business?

First, think about why you want to start your own business and make a list. The thrill of being self-employed, the need for independence both financially and professionally, and the desire to use the most of your intelligence and talents are a few of the most frequent motivations. You also need to make sure you have the desire to put in the time to make a successful business. To decide what type of business fits you the best, you should think about what you find enjoyment in doing and what talents you have. Ask others for their thoughts and see if any of your everyday activities can be made profitable.

At this point, you will need to investigate what will be the exact niche for your company. Determine what it is you want to put on the market, what the competition is like, and how to get ahead of the competition. The most important consideration is the demand for your product or service.

What should the business strategy contain?

A business strategy, when applied to your company, should include an introduction, details about marketing, financial management, operations of the company, and a closing statement.

Continued on other side →

Small Business #2 (cont.)

In the introduction of the business strategy, what should I incorporate?

This segment of the business strategy should contain information about the company and its objectives. Detail the experience within your company and the structure of management and legal status. State what your business has to get ahead of the competition.

In the marketing portion of the business strategy, what should I incorporate?

This is where you should state the products or services being offered and their demand in the market. It should also detail the market and its particular location and size.

In the financial management segment of the business strategy, what should I incorporate?

You should outline the source and amount of the initial equity capital. You also should create a monthly operating budget for the beginning years, as well as expected return on investment (or ROI) and monthly cash flow for these years. After that, present the balance sheets and income statements for the first 2 years and state the break-even point. Discuss your own balance sheet and ways of compensation. Explain who will be in charge of accounting affairs and how they will be maintained. Lastly, think through the possible problems that may arise and develop solutions.

In the operations segment of the business strategy, what should I incorporate?

This is where the explanation of the management of the daily activities will be. It should include insurance coverage, lease or rent agreements and the processes related to the staff and employment. It should also detail what is necessary to produce the products/services and the processes of production and delivery.

In the closing statement of the business strategy, what should I incorporate?

You should restate the company's objectives and purposes and explain the dedication you have to make your company succeed. Be sure to include the methods you plan to use to reach your objectives.

How do I know if a business based at home is good for me?

You have to base your decision to start your own business on something other than the desire to be your own boss, such as: knowing beforehand what it is going to take, a thorough evaluation of your personality, and willingness to go the extra mile. You must be able to make plans and continually make the necessary changes and developments as you go. You will want to set up an environment that is devoted to the professional aspects of your life and even consider a separate office within your home.

Are there certain legal standards that will affect my home-based business?

A home-based business is affected by many of the same laws that apply to normal companies. You need to speak with a lawyer and the state department of labor to learn which of these laws and regulations will come into play. You will need to know your city's zoning regulations as well as knowing which products may not be produced from home. Explosives, fireworks, toys, drugs, sanitary or medical products, and poisons are normally outlawed for production based at home. Other states will not allow the production of drink, food or clothing from home. You may be required to obtain a business bank account, a separate business telephone, a work certificate or license from the state, and a sales tax number for registration and accounting standards. If you have employees, you will be held responsible for social security taxes and withholding their income as well as observing the employee health and safety laws and minimum wage.

How can I prevent cash flow problems from hindering my small business?

One of the main reasons small businesses collapse is they have a poor cash flow strategy. The most common reason for this is that many small business owners do not have a grasp on basic accounting principles. You should learn the basics to maximize your cash flow.

You can either keep cash on hand or in a business bank account in order to take care of the expenses. This will be enough to allow the company to pay bills, to supply investment capital and to have sufficient funds in case of emergencies.

An operating cycle begins with the buying of inventory and ends with receiving the payment for the inventory. It keeps track of the transition of assets to cash. Normally, you purchase an excess of inventory so as not to exhaust your stock as soon as sales are made. Accounts receivable and cash sales will make up your sales. The normal payment date for accounts receivable is 30 days from the purchase date, which is applicable to both your inventory and products sold. Cash and accounts payable are lessened with an inventory payment is made. The collection of receivables will raise your cash. At this point, the operating cycle and the cash has made a full circle and will start again.

Continued on card #3 →

Small Business #3 (cont.)

An analysis of the cash flow will demonstrate if the everyday operations produce sufficient cash to reach the obligation and the relation between large expenditures to pay for obligations and large inflows of cash from sales. With this information, it will be apparent if the inflows and outflows of your business have a positive cash flow or a net loss. Over time, important changes will be seen.

A projection of the monthly cash flow will uncover and eliminate any deficiencies or surpluses in the cash flow and show the relations between previous projections and actual figures. A business financial strategy should be changed to allow for more cash when cash deficiencies are discovered. If a surplus of cash is found, it may be due to excessive borrowing or money that should be invested. The purpose is to construct a strategy to allow a well-balanced cash flow.

What can I do to develop a better business cash flow?

There are several options for increasing cash reserves:

- Accounts receivables: Properly control your accounts receivables and retrieve overdue accounts as quickly as possible. If you are not aggressive with collection, profits are lost.
- Having stricter credit standards: With the tightening of credit and terms, more clients are paying for their purchases in cash, which leads to more cash on hand and lowering the bad-debt expense. Although this is beneficial in the short term, it may not be as appealing in the long term. Less strict credit policies permit more clients to purchase the products or services.
- Take advantage of the market: A common problem is many small business price their products lower than the market and do not make a profit. You should research the product's market, distribution costs and the competition before deciding on prices. Constantly keep an eye on the aspects that play a role on pricing and make adjustment when necessary.
- Make use of short-term loans: Taking a loan from a financial institution can solve short-term cash flow problems. The common forms of credit used in these circumstances are revolving credit lines and equity loans.
- Boost sales: One way to increase the cash flow is to boost sales. Take into account, when a large amount of your sales are credit sales, sales are boosted (as well as accounts receivable), but not cash on hand. This causes your inventory to diminish. Due to receivables not being collected until 30 days after the sale, a significant increase in credit sales will diminish the company's cash reserves fast.

Is a cash reserve necessary in my small business?

It is important to have sufficient cash on hand to pay for expenses and emergencies. Cash beyond this should be put in a manageable, low-risk, interest bearing account, like a savings account, Treasury bill or short-term certificate of deposit.