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Is your business
financially healthy?

Introduction

You probably started your business for many reasons besides a love for small business accounting; maybe it was to turn your passion project into your full-time job, or perhaps you just wanted to become your own boss.

While you don't need to become a full-fledged accountant to make your business successful, there are a handful of financial metrics you should have a handle on.

In this eBook, we'll provide you with some key ways to track your business' financial health.





What's included?

Section 1

Page 1

The five metrics every business owner needs to understand

Section 2

Page 7

Become your own profit expert

Section 3

Page 9

Outsource when needed

Section 1

Five metrics every business owner needs to understand

The most successful small business owners have a strong understanding of these metrics and use them regularly to measure the financial health of their business.

Five Metrics



Income



Expenses



Cash Flow



Accounts Payable



Accounts Receivable



Income

A small business without income just simply won't last long. Pay attention to your daily income, as well as monitoring and tracking it weekly, monthly, quarterly and annually.





Expenses

Are you on top of how much it costs to do business every month? In addition to the cost of goods sold, you can't ignore the overhead costs associated with doing business, including: your lease, utilities payments, paper goods, and even things like paper towels in the bathroom. Next to income, you really need to have control of your business expenses.

Did you know?

40%

of small businesses cited paying operating expenses as a financial challenge



Cash Flow

The balance in your business banking account at the end of the month may not be the best measure of your cash flow. Consider using the cash flow ratio metric, where you divide your income by your liabilities. While you should aim for 2:1, if your ratio falls below 1:1, it's a warning sign that you don't have enough cash flow to support your business operations.

Did you know?

82%

of small businesses fail
due to cash flow reasons



Accounts Payable

Staying on top of your Accounts Payable Aging is important for a number of reasons, including how it impacts your business credit profile. It can also be an opportunity to reap additional profits by taking advantage of the favorable payment terms many suppliers offer their customers who pay their invoices quickly. For example, many suppliers offer discounts if you pay your invoice in 10 days as opposed to 30 days.

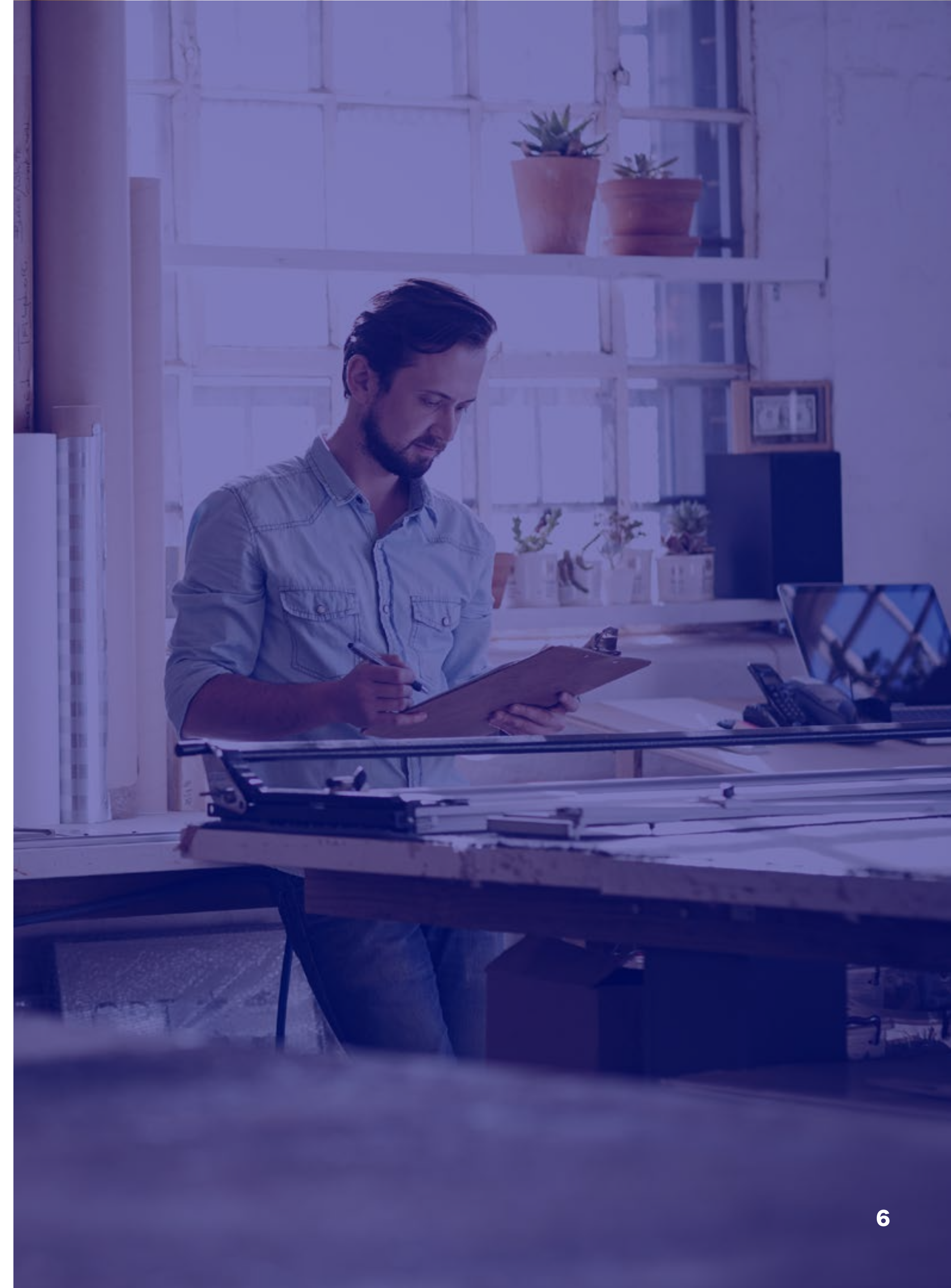
Quick Tip

Looking to build your business credit?

Ask your suppliers if they offer credit terms – many will offer 30, 60, or 90 day credit terms to their best customers. If you pay on time and they report the payments, this will help build your business credit profile.

Accounts Receivable

If you offer your customers payment terms, it's really important to stay on top of how long they take to pay an invoice. If you offer 30-day terms to your customers, every day a customer takes over 30 days to make payment has the potential to negatively impact cash flow. After a certain amount of time, it may even start to cost you to do business with that customer.



Section 2

Become your own profit expert

Do you know who the profit expert is in your business? If you're like other small businesses, it's likely you, though it can often be your accountant or bookkeeper.

There's valuable information hiding in plain sight in your business' financial reports; a true profit expert recognizes this and uses this information to their advantage.

Prof•it ex•pert

noun

1. the expert in every enterprise who sees the opportunity in the business finances to streamline operations and capture additional profits wherever possible.

Profit Expert

There are three areas of the business a true profit expert has a handle on:

1

Marketing & Sales

Your business won't survive if you can't efficiently sell your product or service.

2

Production

You need to be the expert on how your business gets products or services ready for market. Establish key metrics and goals for everyone in the business to follow, track performance and use what you learn to make improvements.

3

Accounting

Cash flow is the life blood of every business. Understanding your business finances inside and out empowers you to make informed decisions about your business.

Section 3

Outsource when needed

As a business owner, you're likely getting pulled in a million different directions every day. You just don't have the time to do everything it takes to keep your business running smoothly.

Perhaps spending hours digging into financial reports just isn't your strong suit; in that case, there are a couple ways to outsource your accounting process profitably.

Did you know?

78% of small business owners are looking to make their accountant a trusted advisor

Outsource when needed

Make your accountant a consultant: Rather than just speaking with your accountant around tax time, enlist them as a trusted consultant/partner to help you improve your business' financial health. They bring a different perspective to your books and can likely offer suggestions to help you save money or reap additional profits. Schedule regular meetings with them (quarterly or semi-annually) to do a deep dive into your financial data.

Automate your bookkeeping practices: There are more software options than ever to automate your bookkeeping. Consult with your accountant on how to implement the best tools to manage things like your payroll, accounting, and even employee expense and time tracking.



Conclusion

Although it's not really rocket science, it does require effort and discipline as a business owner to understand what's really happening financially within your small business. It may require you to learn and master a few additional skills, but these suggestions are a good way to start and will help you have a better understanding of what your business is doing.



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For more helpful resources on running a successful business, check out our [Small Business Resource Center](#).