

10TH ANNUAL
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SUMMIT

Successful Financial Management For Small Businesses

Where spreadsheets meet strategy, and your balance sheet becomes your best friend. Grab your calculator and let's turn those numbers into knowledge!

Calculating Projections

And Determining KPIs

Understanding your growth rate is essential for measuring business performance. The growth rate formula helps you quantify how much your business has expanded or contracted over a specific period.

01

Identify Beginning Value

What were your sales in 2022? Example:
\$100,000

02

Identify Ending Value

What were your sales in 2023? Example:
\$126,000

03

Calculate the Change

Subtract beginning from ending value.
Example: $\$126,000 - \$100,000 = \$26,000$

04

Calculate Percentage

Divide change by beginning value, multiply by 100. Example: $(\$26,000 / \$100,000) \times 100 = 26\%$

05

Interpret Results

Positive percentage indicates growth, negative indicates decline. Ideally, aim for 10% or higher growth rate.



Growth Rate Formula

$$\text{Growth Rate} = \frac{(\text{Ending Value} - \text{Beginning Value})}{\text{Beginning Value}} \times 100$$

What is a Balance Sheet?

A balance sheet provides a snapshot of what a company owns and owes at a specific point in time. It's the financial foundation that shows the company's overall financial position through three key components.

Assets

What the company owns - from cash to equipment to intellectual property

Liabilities

What the company owes - debts, obligations, and amounts due to creditors

Shareholders Equity

Owner investment in the company, calculated as total assets minus total liabilities



Assets: Most Liquid to Least Liquid

Assets represent what the company owns, with a distinction between current assets and noncurrent assets. Understanding liquidity helps you know how quickly assets can be converted to cash.



Key Balance Sheet Ratios

These ratios help you analyze financial health and operational efficiency at a glance.

1

Working Capital Ratio

Current Assets - Current Liabilities

2

Quick Ratio

$(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$

3

Debt to Equity Ratio

Debt / Equity

4

Asset Turnover Ratio

Sales / Total Assets

5

Inventory Turnover Ratio

Cost of Goods Sold / Inventory Value

6

Interest Coverage Ratio

EBIT / Interest Expense

What is an Income Statement?

An income statement shows the company's revenue and expenses over a certain period, revealing profitability and operational performance.

Income Statement Tells You:

- Revenue
- Cost of goods sold
- Gross profit
- Operating expenses
- Operating income
- Non-operating income/expenses
- Income before taxes
- Net income





What is a Cash Flow Statement?

A cash flow statement shows you how much cash goes in and out of a company over a certain period of time, tracking the actual movement of money through three key activities.



Operating Activities

Cash generated from normal business activities - selling products and services



Investing Activities

Investment-related income and expenditures including CAPEX, M&A, and marketable securities



Financing Activities

Cash movements between company, shareholders, and debtors - how the business is financed

Beyond the Balance Sheet

Running Your Business from the Balance Sheet

Traditional metrics like gross profit and EBITDA are important, but focusing on cash-based metrics provides a clearer picture of your business's financial health and operational efficiency.

1

Instead of Focusing On

- Gross Profit
- Variable Costs
- Fixed Costs
- EBITDA

2

Focus On

- Rate of Cash Growth
- Lowering Receivables
- Paying Bills on Time
- Rate of High Interest Debt Payoff

Rate of Cash Growth

Instead of solely concentrating on gross profit, shift your focus towards understanding and increasing your business's cash growth rate. This strategic approach ensures you have the liquidity needed for operations and growth opportunities.



Improve Billing Cycles

Streamline your invoicing process to get paid faster



Enhance Payment Terms

Negotiate better terms with customers for quicker cash collection



Optimize Cash Reserves

Maintain appropriate reserves for financial flexibility





Lowering Receivables

Reducing the time it takes to collect payments improves cash flow and reduces financial risk.

Stringent Credit Control

Implement more rigorous credit control measures to ensure customers pay on time

Early Payment Incentives

Offer discounts or benefits to customers who pay before the due date

Regular Credit Reviews

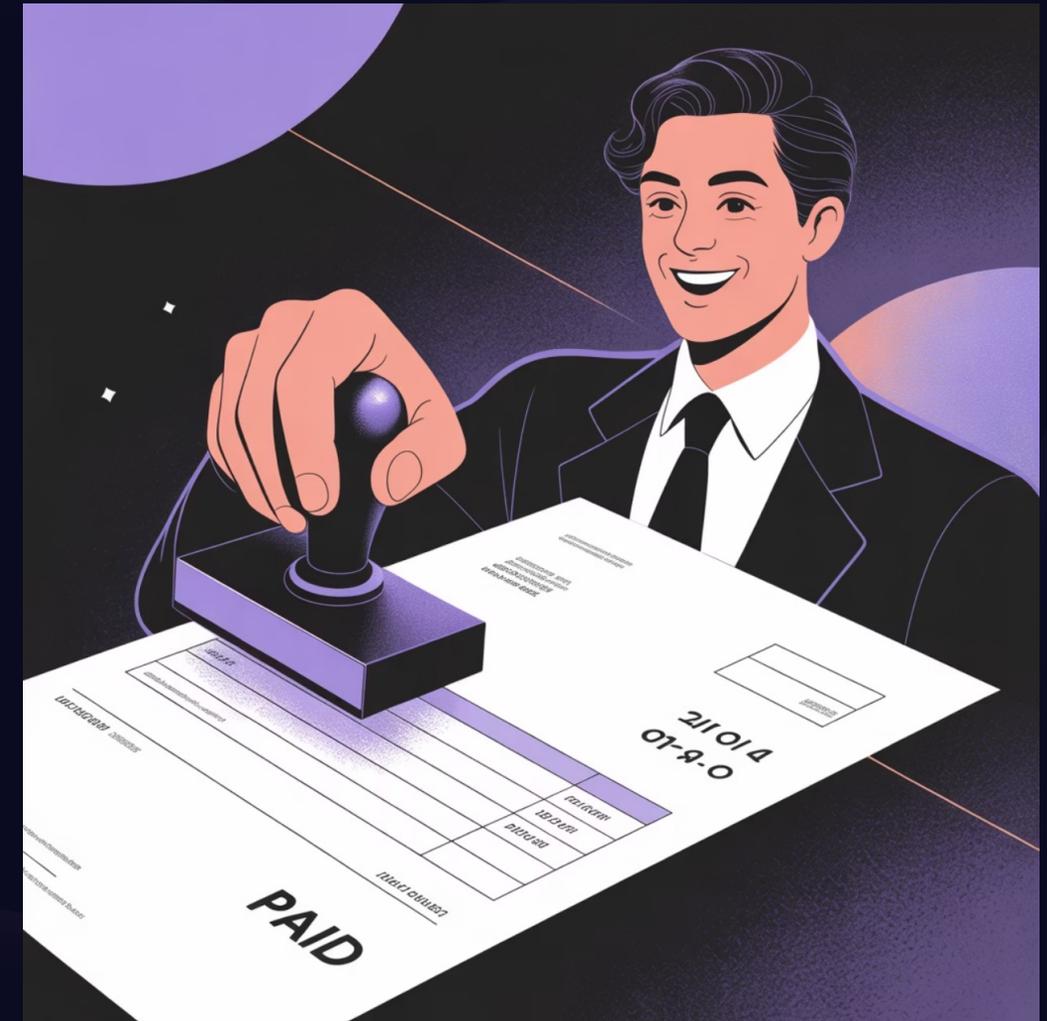
Consistently review customer credit terms to ensure quicker cash flows and minimize risk

Paying Bills on Time

Timely bill payment is a cornerstone of financial health that extends beyond simple obligation fulfillment.

Benefits of Prompt Payment:

- Avoid interest penalties and late fees
- Maintain strong supplier relationships and goodwill
- Potentially benefit from early payment discounts
- Support better credit scores for future financing needs
- Build reputation as reliable business partner



Rate of High Interest Debt Payoff

High-interest debt can significantly drain your business resources. Strategic debt management is essential for long-term financial health.



Refinance When Possible

Replace high-cost debts with more favorable terms and lower interest rates



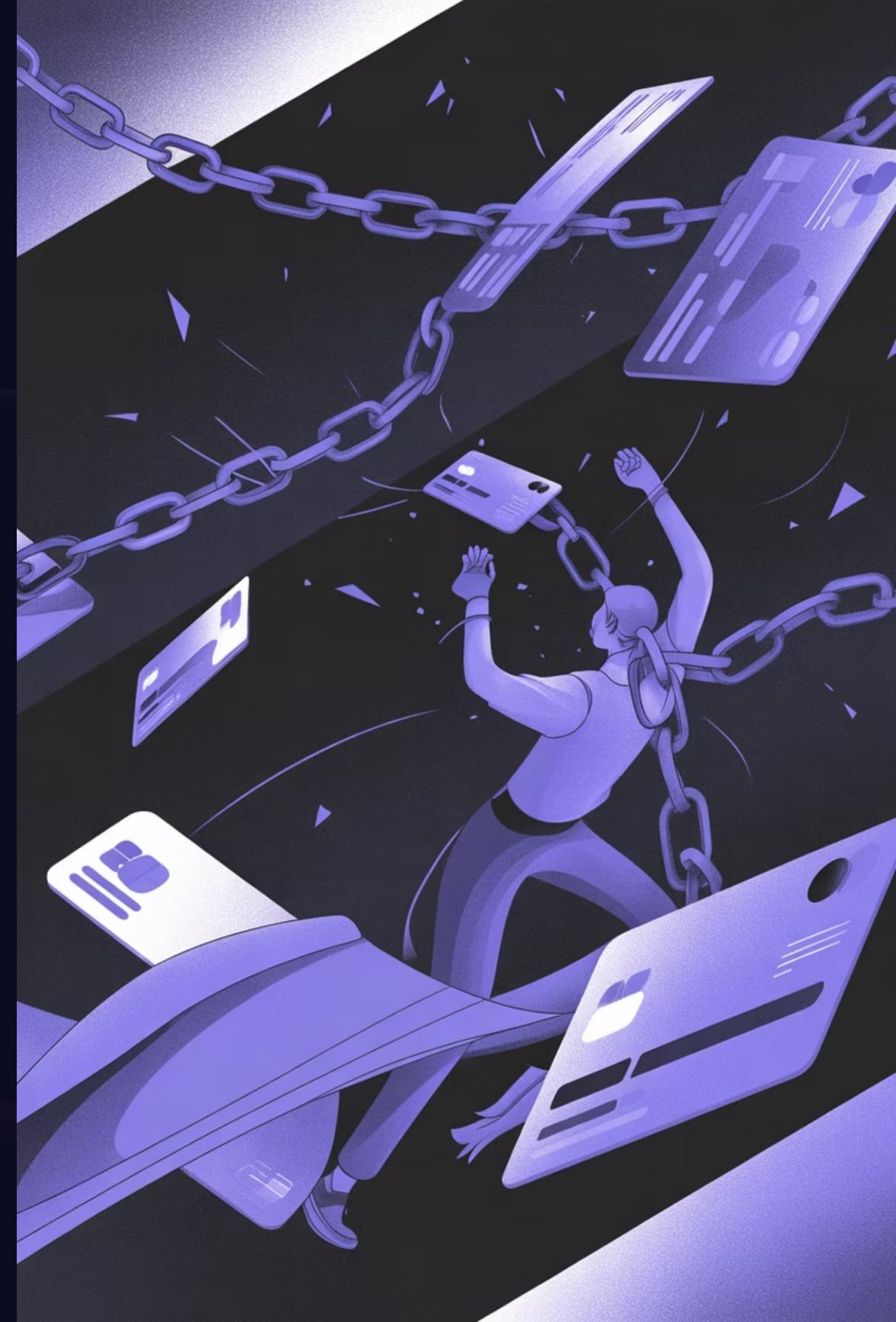
Prioritize Debt Repayments

Focus on paying off highest-interest debts first to minimize total interest paid



Avoid Unnecessary Debt

Prevent accumulation of new high-interest debt through careful financial planning





Strategic Systems Over Traditional Budgeting

Instead of Budgeting For:

- Organic sales growth
- Increases in input costs
- Increases in salaries

Add Systems To:

- Track backlog (work won, but not done)
- Get competing bids on major expenses
- Align compensation with balance sheet performance

Convert Expenses to Investments

Think strategically about major vendor relationships - they can become partners rather than just expenses.

Strategic Partnership Approach

Partner with companies that are major vendors to create mutually beneficial relationships

Long-Term Value Creation

Transform transactional relationships into strategic investments that drive growth



Cash Conversion Cycle (CCC)

Optimizing the Cash Conversion Cycle for Business Efficiency

CCC measures the time taken for cash invested in inventory to return as cash collected from revenue. It indicates how quickly a company can convert its cash into inventory and back into cash.

$$CCC = DIO + DSO - DPO$$

Days Inventory Outstanding (DIO)

Average days to sell entire inventory



Days Sales Outstanding (DSO)

Average days to collect payment after sale



Days Payable Outstanding (DPO)

Average days to pay suppliers



Why is CCC Important?

Long CCC

Indicates slow cash conversion, leading to liquidity issues and increased financing costs

Short CCC

Signifies quick cash conversion, resulting in better liquidity and operational flexibility



How to Shorten Your CCC

1 Upfront Payments

Collect payments before starting work on the project or delivering the product. Not applicable for all businesses, but highly recommended if possible.

2 Offer Early-Pay Discounts

Provide a small discount to clients who pay early. Not all clients will opt for this, but it'll help your flexibility and liquidity tremendously.

3 Make It Easy to Pay

Offer multiple payment methods including mobile payments, digital payments, and pre-authorized debits to ensure ease of payment.

4 Send Clear Invoices

Ensure invoices are accurate and clear, detailing amounts, due dates, and payment terms. Accuracy in invoicing builds trust and facilitates timely payments.

5 "When Work is Done" Invoicing

Shift from monthly invoicing to invoicing right after completing the work. This helps in timely billing and improves cash collection.

Payment Strategy Best Practices

Multiple Payment Options

Convenience drives prompt payment - offer every method your customers prefer

Crystal Clear Invoicing

Eliminate confusion with detailed, accurate invoices that build trust

Immediate Invoicing

Bill as soon as work is complete - don't wait for month-end



Thank You!

You've now mastered the essentials of financial statements, cash flow optimization, and strategic business management. Remember: your balance sheet isn't just a report—it's your roadmap to financial success.

Key Takeaway

Focus on cash flow, not just profit.
Manage your CCC, pay strategically,
and turn expenses into
investments.

Next Steps

Implement these systems in your
business, track your metrics, and
watch your financial health
improve.

Keep Learning

Financial mastery is a journey. Stay curious, stay strategic, and keep
optimizing.