

SIMPLE STEPS FOR STARTING YOUR BUSINESS

Session 4: Financial Matters



Together with **TRUIST** 

ABOUT SCORE

Session 4: Financial Matters



SCORE volunteers are successful and experienced business executives

Seminars and workshops

Free mentoring:

- One-on-one
- E-mail

Resources for small businesses:

www.score.org/cleveland

MENTORING LOCATIONS

Session 4: Financial Matters

SCORE Cleveland provides both virtual and in-person mentoring in the following counties:

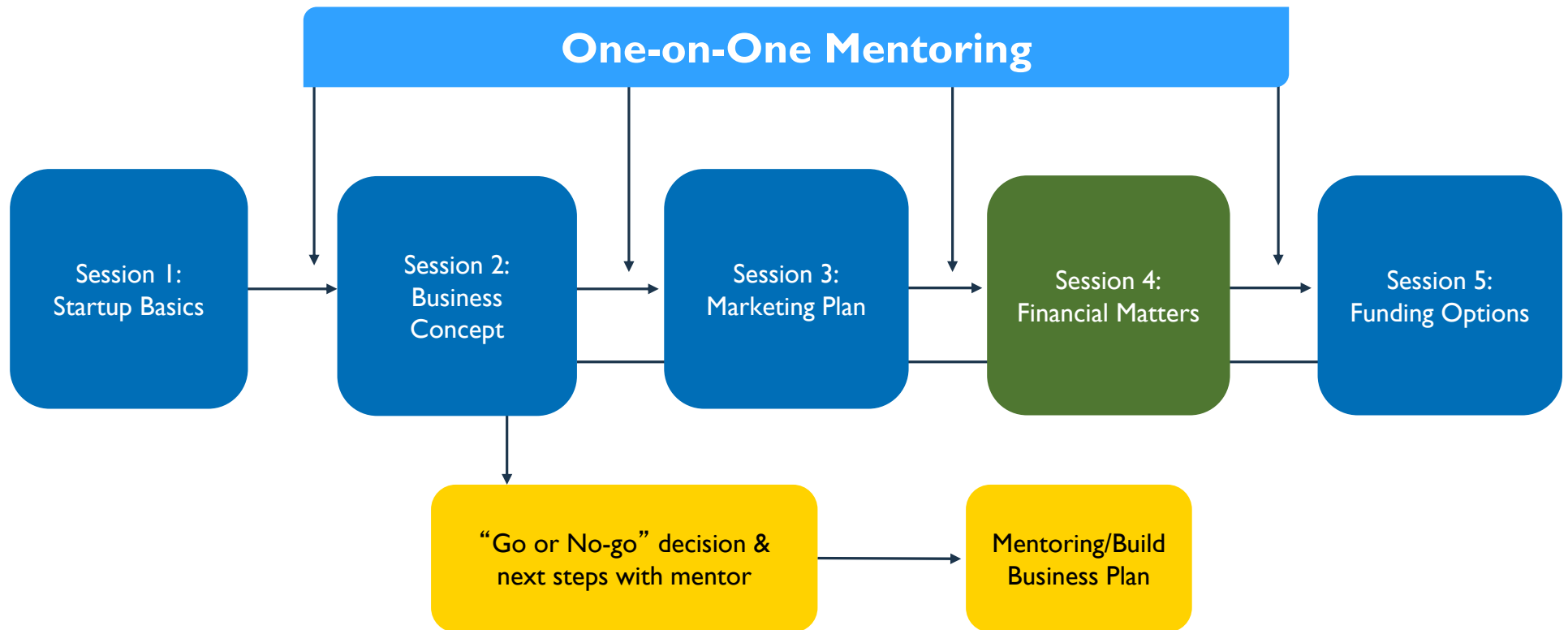
- Ashtabula
- Cuyahoga
- Erie
- Geauga
- Huron
- Lake
- Lorain
- Please make note of this information in your manual.



PROCESS ROADMAP

Session 4: Financial Matters

One-on-One Mentoring



WORKSHOP BENEFITS

Session 4: Financial Matters

- Helps you develop your financial forecast.
- Takes you through the decision-making process
- Provides you with the information to help make a “go or no-go” decision on your business idea
- Has the core information to create a complete business plan for bankers and investors
- Gives you the key directions you need to get started

AGENDA

Session 4: Financial Matters

- Financial accounting versus Managerial accounting
- Financial planning
- Financial projections
- Forecasting sales
- Pricing fundamentals
- Understanding financial statements
- Recordkeeping



Financial vs Managerial Accounting

- **Financial accounting** is the process of recording, summarizing and reporting a company's business transactions through financial statements. It is a historical look at the business finances.
- **Managerial accounting** is the practice of using accounting information — from revenues to production inputs and outputs affecting the supply chain — internally, in support of organization-wide efficiency and for tracking the organization's progress toward attaining its stated goals. Unlike financial accounting, this is a forward financial look at the business using historical data and business plans.
- This workshop focuses on managerial accounting.

THE IMPORTANCE OF FINANCIAL PLANNING

- Match business concept with personal income goals
- Gain a better understanding of financial risks and rewards of entrepreneurship
- Figure out how much money you will need to start and run your business
- Identify development and startup costs, ongoing operations expenses and funds needed to finance the business
- Create a plan to help guide future business decisions and monitor results
- Enables you to communicate with stakeholders (investors, lenders, employees, etc.) about the business's finances

THE IMPORTANCE OF FINANCIAL PLANNING

- A financial plan is your forecast of sales, costs, profits and assets for the first year or more after startup
- Use it to predict how successful your new business might be and to understand where your money will be allocated and where it will come from
- Helps you examine the feasibility of your numbers and organize your business finances
- It's a:
 - Modeling tool that helps you evaluate variable factors
 - Benchmark for tracking progress
 - Blueprint you can adjust to achieve your financial goals

FINANCIAL PROJECTIONS TEMPLATE

Session 4: Financial Matters



Common Concerns:

- The spreadsheets look complicated. I don't think I can do this on my own.
- I don't understand all the figures and math.
- This is overwhelming.
- Can I start my business without a financial projection model?

Businesses don't plan to fail – they fail to plan!

COMPONENTS OF YOUR FINANCIAL PLAN

Session 4: Financial Matters

There are 5 elements that comprise a financial plan:

1. Required startup funds
2. Salaries and wages
3. Projected sales forecast
4. Cash receipts and disbursements
5. Fixed operating expenses

We will use the Financial Plan Template for this



REQUIRED STARTUP FUNDS

Here are some factors to consider as you calculate your required startup funds.

- How much money do you need to get your business up and running?
- What will it be used for?
- What are your expected sources of capital?
- How much will be financed by you and your partners, and how much by other sources?

FINANCIAL PROJECTIONS TEMPLATE REQUIRED STARTUP FUNDS

Tab I

Fixed Assets	Amount
Real Estate-Land	100,000
Real Estate-Buildings	30,000
Leasehold Improvements	15,000
Equipment	5,000
Furniture and Fixtures	2,000
Vehicles	20,000
Other	
Total Fixed Assets	\$ 172,000

Operating Capital	Amount
Pre-Opening Salaries and Wages	-
Prepaid Insurance Premiums	2,500
Inventory	30,000
Legal and Accounting Fees	3,000
Rent Deposits	-
Utility Deposits	300
Supplies	1,000
Advertising and Promotions	2,000
Licenses	-
Other Initial Start-Up Costs	-
Working Capital (Cash On Hand)	3,000
Total Opening Capital	\$ 41,800
Total Required Funds	\$ 213,800

- How much do you need?
- What will it be used for?
- Also consider starting costs for employees: salaries, taxes, benefits
- This develops the Assets part of opening Balance Sheet

Tab I - SOURCES OF FUNDING

Session 4: Financial Matters

Sources of Funding	Percentage	Totals
Owner's Equity	53.79%	115,000
Outside Investors	0.00%	-
Additional Loans or Debt		
Commercial Loan	15.81%	33,800
Commercial Mortgage	23.39%	50,000
Credit Card Debt	0.00%	-
Vehicle Loans	7.02%	15,000
Other Bank Debt	0.00%	-
Total Sources of Funding	100%	\$213,800
Total Funding Needed		

Tab 2 – SALARIES & WAGES

SALARIES AND WAGES:

- Include wages for employees and the business owners
- Remember to include taxes on wages
- Typically, mandatory and voluntary fringe benefits total about 30% wages
- Don't forget to verify the Workman's Compensation tax percentage with your accountant or the state.
- Contractors are 3rd party workers you do not employ directly (you issue a 1099 form, not a W2).

Tab 2 - SALARIES AND WAGES

Session 4: Financial Matters

Employee Types	Number of Owners /Employees	Average Hourly Pay (to 2 decimal places, ex. \$15.23)	Estimated Hrs./Week (per person)	Estimated Pay/Month (Total)
Owner(s)	1	23.08	40	\$ 4,000
Full-Time Employees	3	5.77	40	\$ 3,000
Part-Time Employees	0			\$ -
Independent Contractors	0			\$ -
Total Salaries and Wages	4	\$ 28.85	80	\$ 7,000

Payroll Taxes and Benefits	Wage Base Limit	Percentage of Salary/Wage		Estimated Taxes & Benefits/Month (Total)
Social Security	\$ 110,111	6.20%		\$ 434
Medicare	--	1.45%		\$ 102
Federal Unemployment Tax (FUTA)	\$ 7,000	0.80%		\$ 19
State Unemployment Tax (SUTA)	\$ 7,000	3.45%		\$ 81
Employee Pension Programs	--	2.85%		\$ 200
Worker's Compensation	--	0.00%		\$ -
Employee Health Insurance	--	0.00%		\$ -
Other Employee Benefit Programs	--	0.00%		\$ -
Total Payroll Taxes and Benefits		14.75%		\$ 834
Total Salaries and Related Expenses				\$ 7,834

Tab 3 - FORECASTING SALES UNITS

Session 4: Financial Matters

What unit categories make sense for your business?

- You need to figure out if you're selling:
 - Products
 - Services (hours or fixed price)
 - Combination (packages)
- Determine what makes up your “unit of sale”
- Determine your direct cost per unit
- Determine your price per unit



PRICING YOUR PRODUCTS/SERVICES

Smart Pricing Strategy:

Starts with understanding the market price: the average price charged by your competitors and the price at which their product or service is generally valued in the marketplace. You can then choose to charge a:

- Premium price (if you have a superior, value-added product or service)
- Discount price (which is generally hard for small companies to sustain)
- Similar price to your competitors' (market price)

Elements of pricing:

- Premium price (if you have a superior, value-added product or service)
- Consumer reaction
- Competition
- Cost
- Credit terms and discount

SALES UNIT DATA SOURCES

Session 4: Financial Matters



Sales unit category or grouping

- Product, service, package, volume, customer type

Unit cost and price

- Build up from sources
- Subcontract
- Competition

Sales volume in units

- Estimate from market
- Competition
- Back in number to make business profitable

PRICING CONSIDERATIONS

Channel: (if your business is....)

Wholesale/Distributor – what to charge your customers that sell retail

Retail – what to charge customers

Internet – charge more (or less) for Internet customers

Third Party – charge more for 3rd party distributors (Uber Eats, Grub Hub, Door Dash)

Mark-up on Cost:

Calculating pricing based on a markup of your cost to produce the product/service.

Bundling:

Charging lower prices when customers buy more than one product or service

Target Market:

If you market to luxury buyers or your clients need extra attention, build the additional costs into your prices.

PRICING CONSIDERATIONS

Session 4: Financial Matters

Promotional Pricing:

- Consider offering sales or promotional prices to attract new customers or encourage customers to buy more

Introductory Pricing:

- New companies often offer introductory pricing, to entice consumers to take a chance on doing business with them



SETTING YOUR INITIAL PRICES

Session 4: Financial Matters

Consider the **COGS (Cost Of Goods Sold)**:

The direct costs of producing the products.
Add to that total to create a profit margin.

When pricing a service, consider standard industry practices, plus market prices.

What do your competitors charge? Will you will match it, beat it or charge more?



ADJUSTING YOUR PRICES

Monitor customer demand. Is your product or service selling? If not, rethink your pricing.

- Compare your sales to the competition.
- Are your sales similar to, better than, or worse than theirs?
- Ensure you're providing value commensurate with your price.
- Consider using credit terms or bundling products/services to make your offerings more attractive.
- Unless you're experiencing increased demand, before increasing prices, look for ways to reduce costs.

DON'T GET INTO A PRICE WAR!

GROSS PROFIT MARGIN

What is gross profit margin?

- Sales (\$) minus direct cost of sales (usually materials and direct labor)

Why is it important?

- Requires you to cost out what you're selling
- Helps you determine adequacy of gross price for what you're selling



PROJECTED SALES FORECAST

Session 4: Financial Matters

Product Line I	Year I Totals	%	January
Recycled Products			
Goods Sold	125		6
Total Sales	\$250,000	100%	\$11,000
Total COGS	\$137,500	55%	\$6,050
Total Margin	\$112,500	45%	\$4,950

Tab 4 - ADDITIONAL INPUTS

Session 4: Financial Matters

Accounts Receivable (A/R) Days Sales Outstanding			
Percent of Collections	Year 1	Year 2	Year 3
Paid within 30 days	30%	30%	30%
Paid between 30 and 60 days	30%	30%	30%
Paid in more than 60 days	40%	40%	40%
Allowance for bad debt	0%	0%	0%
This should equal 100% ---->	100%	100%	100%

Accounts Payable (A/P)			
Percent of Disbursements	Year 1	Year 2	Year 3
Paid within 30 days	0%	0%	0%
Paid between 30 and 60 days	100%	100%	100%
Paid in more than 60 days	0%	0%	0%
This should equal 100% ---->	100%	100%	100%

Tab 5 - FIXED OPERATING EXPENSES

FIXED OPERATING EXPENSES:

- Fixed operating expenses are the administrative expenses necessary to run the business
- These include costs such as indirect salaries & wages, insurance, rent, utilities, sales commissions, advertising, taxes and licenses

FIXED OPERATING EXPENSES

Session 4: Financial Matters

	January
Expenses	
Advertising	900
Car and Truck Expenses	800
Commissions and Fees, including credit card	-
Contract Labor (Not included in payroll)	-
Insurance (other than health)	400
Legal and Professional Services	150
Licenses	-
Office Expense	250
Rent or Lease -- Vehicles, Machinery, Equipment	200
Rent or Lease -- Other Business Property	300
Repairs and Maintenance	
Supplies	300
Travel, Meals and Entertainment	300
Utilities	500
Miscellaneous	200
Total Expenses	\$ 4,300

UNDERSTANDING FINANCIAL STATEMENTS

Session 4: Financial Matters

Income Statement:

- Gross profit margin and overhead expense management

Cash Flow Statement:

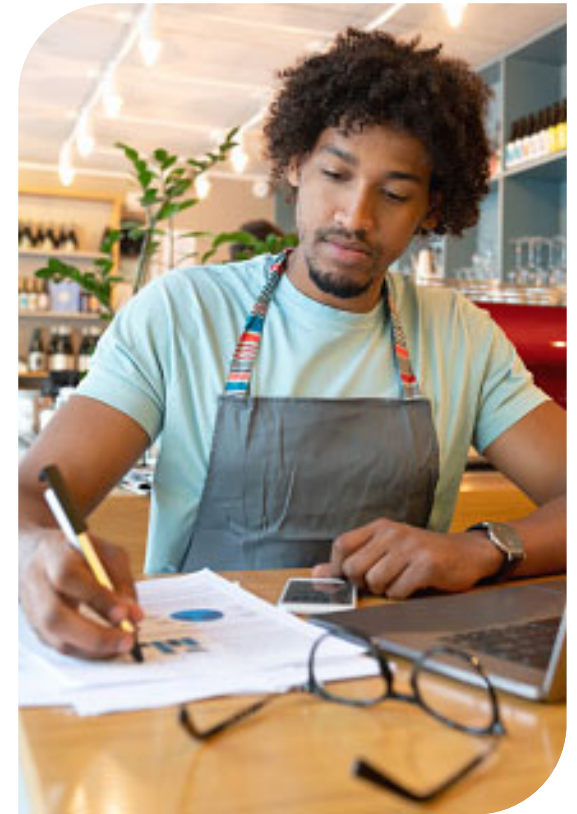
- Funds management

Balance Sheet:

- A/R, Inventory & A/P management

Breakeven Analysis:

- Use of industry comparison ratios



WHY 3 FINANCIAL STATEMENTS?

Session 4: Financial Matters



1. Income statement

- How long to reach profitability?
- Do I make a profit or loss?

2. Cash flow statement

- Do I have enough sources of funds to operate, sustain & grow the business?

3. Balance sheet

- What are my assets & liabilities?
- How much am I worth?

INCOME AND EXPENSE STATEMENT (P&L)

Tab 7

Session 4: Financial Matters

	January	February	March
Revenue			
Plant Mix			
Plant Mix – Web			
Plant Mix – Distant Nursery			
Product 4			
Product 5			
Product 6			
Total Revenue			
Cost of Goods Sold			
Plant Mix			
Plant Mix – Web			
Plant Mix – Distant Nursery			
Product 4			
Product 5			
Product 6			
Total Cost of Goods Sold			
Gross Margin			
Payroll			

INCOME AND EXPENSE STATEMENT (P&L)

Tab 7

Session 4: Financial Matters

	January	February	March
Payroll	\$ -	\$ -	\$ -
Operating Expenses			
Advertising	-	-	-
Car and Truck Expenses	-	-	-
Commissions and Fees	-	-	-
Contract Labor	-	-	-
Insurance (other than Health)	-	-	-
Legal and Professional Services	-	-	-
Licenses	-	-	-
Office Expense	-	-	-
Rent or Lease -- Vehicles, Machinery, Equipment	-	-	-
Rent or Lease -- Other Business Property	-	-	-
Repairs and Maintenance	-	-	-
Supplies	-	-	-
Travel, Meals and Entertainment	-	-	-
Utilities	-	-	-
Miscellaneous	-	-	-
Other Expense 1			
Other Expense 2			
Total Operating Expenses	\$ -	\$ -	\$ -
Income (Before Other Expenses)	\$ -	\$ -	\$ -

INCOME AND EXPENSE STATEMENT (P&L)

Tab 7

Session 4: Financial Matters

	January	February	March
Other Expenses			
Amortized Start-up Expenses	-	-	-
Depreciation	-	-	-
Interest			
Commercial Loan	-	-	-
Commercial Mortgage	-	-	-
Credit Card Debt	-	-	-
Vehicle Loans	-	-	-
Other Bank Debt	-	-	-
Line of Credit	-	-	-
Bad Debt Expense	-	-	-
Total Other Expenses	-	-	-
Net Income Before Income Tax	\$ -	\$ -	\$ -
Income Tax	\$ -	\$ -	\$ -
Net Profit/Loss	\$ -	\$ -	\$ -

Tab 6 - CASH FLOW PROJECTION

Session 4: Financial Matters

	January	February	March
Beginning Balance	\$ 3,000	\$ 3,000	\$ 3,000
Cash Inflows			
Cash Sales	3,000	3,000	3,000
Accounts Receivable	-	3,000	7,000
Total Cash Inflows	\$ 3,000	\$ 6,000	\$ 10,000

Cash Outflows			
Investing Activities			
New Fixed Asset Purchases	-	-	-
Additional Inventory			
Cost of Goods Sold	-	5,500	5,500
Operating Activities			
Operating Expenses	4,300	4,300	4,300
Payroll	7,834	7,834	7,834
Taxes	-	-	-
Financing Activities			
Loan Payments	1,346	1,346	1,346
Owners Distribution			
Line of Credit Interest		70	157
Line of Credit Repayments			
Dividends Paid			

CASH FLOW PROJECTION

Session 4: Financial Matters

	January	February	March
Beginning Balance	\$ 3,000	\$ (8,670)	\$ (21,721)
Cash Inflows			
Cash Sales	3,000	3,000	3,000
Accounts Receivable	-	3,000	7,000
Total Cash Inflows	\$ 4,000	\$ (2,670)	\$ (11,721)

Cash Outflows			
Investing Activities			
New Fixed Asset Purchases	-	-	-
Additional Inventory			
Cost of Goods Sold	-	5,500	5,500
Operating Activities			
Operating Expenses	4,300	4,300	4,300
Payroll	7,834	7,834	7,834
Taxes	-	-	-
Financing Activities			
Loan Payments	1,346	1,346	1,346
Owners Distribution			
Line of Credit Interest		70	157
Line of Credit Repayments			
Dividends Paid			
Net Cash Balance	\$ (8,670)	\$ (21,721)	\$ (30,858)

Tab 8 - BALANCE SHEET

Session 4: Financial Matters

ASSETS	First Year
Current Assets	
Cash	3,000
Accounts Receivable	37,500
Inventory	30,000
Prepaid Expenses	5,867
Other Initial Costs	-
Total Current Assets	\$ 76,367
Fixed Assets	
Real Estate – Land	100,000
Real Estate – Buildings	30,000
Leasehold Improvements	15,000
Equipment	5,000
Furniture and Fixtures	2,000
Vehicles	20,000
Other	-
Total Fixed Assets	\$ 172,000
(Less Accumulated Depreciation)	\$ 8,757
Total Assets	\$ 239,609

Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Tab 8 - BALANCE SHEET

Session 4: Financial Matters

LIABILITIES & EQUITY	Year 1
Liabilities	
Accounts Payable	-
Commercial Loan Balance	-
Commercial Mortgage Balance	-
Credit Card Debt Balance	-
Vehicle Loans Balance	-
Other Bank Debt Balance	-
Line of Credit Balance	-
Total Liabilities	\$ -
Equity	
Common Stock	-
Retained Earnings	-
Dividends Dispersed/Owners Draw	-
Total Equity	\$ -
Total Liabilities and Equity	\$ -
Balance sheet in or out of balance?	\$ -
	Balanced!

Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Tab 9 - BREAKEVEN ANALYSIS

Gross Margin % of Sales	
Gross Margin	\$ 151,300
Total Sales	\$ 347,000
Gross Margin/Total Sales	43.6%
Total Fixed Expenses	
Payroll	\$ 94,013.18
Operating Expenses	\$ 71,068.69
Operating + Payroll	\$ 165,082
Breakeven Sales in Dollars (Annual)	
Gross Margin % of Sales	43.6%
Total Fixed Expenses	\$ 165,082
Yearly Breakeven Amount	\$ 378,608
Monthly Breakeven Amount	\$ 31,551

Breakeven is where:

Gross Profit Margin

=

Total Expenses

OR

Sales Volume = \$0 Profit

**Breakeven Sales \$ = Fixed
Cost / GM%**

The spread between breakeven and sales forecast is very important (the wider the better).

BENCHMARKING & FINANCIAL RATIOS

Ratios	Year One
Liquidity	
Current Ratio	0.5
Quick Ratio	0.3
Safety	
Debt to Equity Ratio	1.4
Debt-Service Coverage Ratio - DSCR	-0.1
Profitability	
Sales Growth	0.0%
COGS to Sales	56.4%
Gross Profit Margin	43.6%
SG&A to Sales	42.0%
Net Profit Margin	-4.8%
Return on Equity (ROE)	-17.0%
Return on Assets	-7.0%
Owner's Compensation to Sales	13.8%
Efficiency	
Days in Receivables	38.9
Accounts Receivable Turnover	9.3
Days in Inventory	55.2
Inventory Turnover	6.5
Sales to Total Assets	1.4

Test the feasibility of your plans by conducting research:

- RMA annual statement studies
- Industry norms and key business ratios (D&B)
- Financial ratios, business statistics & benchmarks: www.bizstats.com

FINANCIAL STATEMENT ANALYSIS

Session 4: Financial Matters



- Monthly preparation and review of financial statements (within 10 days after the close of the month)
- Ratio analysis
- A/R and A/P analysis
- Comparative benchmark analysis

RECORDKEEPING AND FINANCING

Session 4: Financial Matters



- Preparation is essential
- Lenders want facts, research and accurate projections
- Whether you seek funding now or in the future, your records should be in order

SIMPLE STEPS FOR STARTING YOUR BUSINESS

Testing Your Business Ideas

- ✓ Session 1 → Startup Basics
- ✓ Session 2 → Business Concept
- ✓ Session 3 → Marketing Plan
- ✓ Session 4 → Financial Matters
- Session 5 → Funding Options

WE CAN HELP YOU

Session 4: Financial Matters



We can help you:

- Further research your idea
- Complete your feasibility plan
- Finalize your financial forecast
- Develop your business plan
- Prepare your loan package
- Launch your business
- Grow your business

HELP US, HELP YOU

Session 4: Financial Matters



Please complete our workshop survey:

- On a scale of 0 - 10, how likely is it that you would recommend this workshop to your friends and colleagues?
- What is the primary reason for the answer you just gave us?
- What is the most important improvement that would make you rate us closer to a 10?

SIGN-UP

Session 3: Marketing Plan



Sign up for the remaining workshop!

Funding Options

Go to www.score.org/cleveland, then click on the Local Workshops link.