



WISE Conference 2010

Why the Numbers Are Your New BFF

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Why We Avoid the Numbers



- <http://www.youtube.com/watch?v=ekp9dmXM7Qs&feature=related>

Top Ten Reasons For Business Failures*



- **Lack of Adequate Working Capital**
- **Excessive Cost Overruns**
- **Target Markets Are Not Identified**
- Heavy Competition
- Franchise Difficulties
- Pyramid Schemes
- Management Turnover
- **Unable to Meet Projected Sales Goals**
- **Tax Problems**
- Business is Seasonal

*Morgan Stanley Research



Working Capital and Cash Flow

- How Much Working Capital is Needed
 - Initial Investment for Start Up
 - “Burn Rate” or Breakeven Analysis
- Effective Management of Current Assets
 - Inventory Levels
 - Uncollected Accounts Receivable



Working Capital and Cash Flow



- Know Your Current Ratio
 - Current Assets/Current Liabilities = 2 or better
 - Inventory is Not Always So Liquid
 - Ability to Meet Your Short Term Obligations
- Working Capital = CA-CL
 - Your Investment/Shortfall Cushion
- Balance Sheet is the Driver
 - Value Versus Obligations

Cash Flow Through the Business





Effective Cash Flow Management

- UNDERSTAND the Cycle & MANAGE IT
 - Timing is EVERYTHING
- Be Realistic in Sales Projections
 - Growth Does Not Typically Happen Overnight
 - Seasonality Does Exist!
 - Be Prepared for Change
 - Related Diversification Can Minimize Risk
- Break Even Analysis
 - Margin Drives Minimum Sales Levels
 - What is Left Over For Operating Expenses



Tax Management



- Legal Entity Choice
- PAY ON TIME
 - Penalties and Interest Add Up Fast
- Collected Taxes Are Not Part of Cash Flow
 - Payroll and Sales Taxes
- Hire a Qualified Tax Professional



Why the Numbers Are Your New BFF

- **Balance Sheet** – Working Capital
 - Assets = Liabilities + Equity
 - Value Versus Obligations
- **Income Statement** – Book Performance
 - Financing Support
 - Am I Profitable?
 - How Do I Become More Profitable
- ***Cash Flow Statement*** – Actual and Projected
 - Is the Business Sustainable





Why the Numbers Are Your New BFF

- They Will Answer Pretty Much Anything You Ask
- They NEVER Lie
- They Support Your Business and Validate Your Ideas
- They Help You Plan
 - Will It Work or Won't It



Resources for the Entrepreneur

- <http://www.makemineamillion.org>
- <http://www.bplans.com>
- <http://www.smallbusiness.findlaw.com>

