

# **FINANCIAL MANAGEMENT FOR SMALL BUSINESSES**



# Phases of a Business

Different experts will argue on how many phases there are, but there is elegance in using something easy to remember. We divide the organizational life cycle into the following phases:

- **Start up. (or Birth and Struggle)**
  
- **Growth**
  - **growth phase (fast growth) and**
  - **maturity phase (slow growth or no growth, plateau). However, maturity often leads to**
  
- **Decline. When in decline, an organization will either undergo**
  
- **Renewal (further expansion) or**
  
- **Death**

# Financial Management

Financial Management is the process of managing the financial resources, including:

- accounting and financial reporting,
- budgeting,
- collecting accounts receivable,
- risk management, and
- insurance for a business

# Maintaining your accounting system

There are a number of alternative ways you can handle this:

- you can manage everything yourself;
- hire an employee who manages it for you;
- keep your records in house, but have an accountant prepare specialized reporting such as tax returns; or
- have an external bookkeeping service that manages financial transactions and an accountant that handles formal reporting functions.
- Some accounting firms also handle bookkeeping functions. Software packages are also available for handling bookkeeping and accounting

# Sources of External Funding

External funds can be raised through:

- Grants
- Loans
- Investors:
  - Angel Investors
  - Equity Financing
  - Small Business Investment Companies
  - Venture Capital (Not yet available in Jamaica, but is urgently needed)
- Mergers
- Going Public (Junior Stock Exchange)
- Selling All or Part of the Business

# Managing Cash Shortages

- **Set your policies**
- **Time your invoices**
- **Consider a retainer, a deposit, or COD**
- **Keep in Touch**

# Payment Policy

Here is what you should include:

- Who will you offer credit to?
- How much credit will you offer?
- How will you determine your customers' creditworthiness?
- When will your bills go out?
- In what time frame will you expect payment?
- How will you follow-up if a payment is not made?

# Risk

- **A state of uncertainty where some of the possibilities involve a loss, catastrophe, or other undesirable outcome**

# Insurance Policies

For each policy, you should have the following information:

- Clear statement of the type of coverage.
- Names of individuals covered.
- Detailed list of assets covered.
- Effective dates and expiration date.
- Annual premium.

# Out of a Financial Crisis

Here are some steps you can take to manage your debt successfully:

- realistic budgeting,
- Self-Help – negotiate with your creditors make alternative arrangements
- Credit Counselling – trade organisation, professional counsellors, credit union
- Debt Management Plans – make manageable arrangements with creditors
- Debt Consolidation – secure a loan to pay out debts, thus reducing payments
- Bankruptcy – this allows some relief but the record stays with you for a long time

# Conclusion

- If at this time you are aware that the only way to ensure the financial health of your business is to learn accounting and to keep proper records, and consistently monitor your performance, then the time spent here was not wasted. A proper financial system will not tell you how to run the business and what corrective action you should take in case of difficulties, However it will indicate what is happening and point you to the solution **if you can read the signs.**

**Thank You**