



Cash Flow Your Biz

How to start
and grow your
business debt-free

Kathy Kali

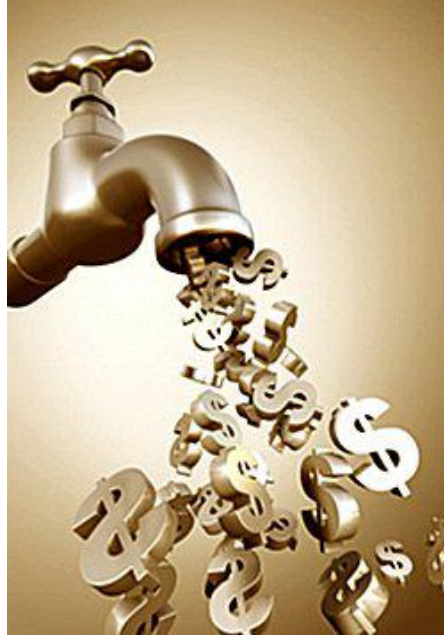


Welcome!

*I was inspired to write this e-book to help
conscious entrepreneurs win with money. I believe
heart-centered business owners are changing the
world for good. Money helps you fulfill your mission.
Together, we are creating a world that works
for everyone!*

*Blessings,
Kathy Kali*

Cash Flow Your Biz



Cash Flow is magic for small businesses! We all know that having regular net profit is essential for a business to keep running. Regular income is grease in the gears of life. We are all happy when our cash flow is consistent, and expanded.

However many healing & conscious business owners are right-brained by nature, and have difficulty organizing money, a left-brained activity. We want to focus on serving our customers, creating our products & services, and fulfilling our Higher Purpose. That is why we got into business, after all, to follow our heart, not to crunch numbers!

And so unfortunately the holistic small business owner is very vulnerable to the dangers of debt. Our consumer culture promotes debt as a great tool. But it is rare that financial institutions talk with you about the risks of credit. When there are economic downturns, personal transitions, or challenges in your business, debt payments can take over your cash flow and reduce it to a trickle. Personal finance expert Dave Ramsey says that “Debt creates enough risk to offset any possible advantage.”

I know this first-hand, as the business debt I carried for many years kept me from re-investing in business growth, and destabilized my household. It is very painful to have to keep making payments when your income is down and you have no cash in the bank. And all businesses experience cycles of ups and downs in gross income.



Sadly the average American household is carrying \$30,000 in personal debt alone(\$10,000 in credit cards, \$10,000 in car loan & \$10,000 minimum student loans). And entrepreneurial debt, which many people carry in their small business, can be an additional stress.

So what can we do? The basics of personal finance are actually very simple. The answer is a pro-active money-management strategy for BOTH household and business.

As small business owners our home finances and business finances affect each other intimately. I recommend all small business owners become familiar with the Baby Steps for Wealth-Building in your household.



The 7 Baby Steps for Wealth-Building

1. \$1000 in an Emergency Fund
2. Pay Off All Debt With the Debt Snowball
3. 3 to 6 Months Expenses in Savings
4. Invest 15% Of Income Into Roth IRAs and Pre-Tax Retirement Plans
5. College Funding
6. Pay Off Your Home Early
7. Build Wealth and Give!



The Baby Steps for Business

Besides applying the “Baby Steps” at home, you can use them as a strategy to start and grow your business debt-free. Apple, Amazon, and Bed Bath & Beyond all grew and operate debt-free! The key is to start small, with a product or service that you know will be profitable. You then grow the income from that product or service as fast as the market will allow, or "organically".

Keeping business expenses low and putting some money from the business aside for taxes & retained earnings ensures you have stability for any market

change. Then you can invest in business expansions with cash. Cash in the bank will make you feel like a King or Queen in your business, empowered and wealthy!

When you want to make a change, it is helpful to take things one step at a time: baby steps. We're all in different places with money. Start right where you are and get where you want to be. Know-how is 20% of the equation. Behavior change and self-discipline make up the other 80%.

You can do it! Just follow the steps.

Baby Step 1

\$1,000 Business Emergency Fund



An emergency fund is for those unexpected events in life that you can't plan for: sickness, market fluctuations, business equipment problems, and the list goes on and on. It's not a matter of *if* these events will happen; it's simply a matter of *when* they will happen.

This beginning emergency fund will keep life's little "Murphies" from turning into new debt while you work off the old debt. If a real emergency happens, you can handle it with your emergency fund. No more borrowing. It's time to break the cycle of debt!

Baby Step 2

Pay Off All Biz Debt Using the Debt Snowball



List your business debts, excluding properties, in order. The smallest balance should be your number one priority. Don't worry about interest rates unless two debts have similar payoffs. If that's the case, then list the higher interest rate debt first.

The point of the debt snowball is simply this: You need some quick wins in order to stay pumped up about getting out of debt! When you start knocking off the easier debts, you will see results and you will stay motivated!

Baby Step 3

3 to 6 months operating expenses in savings



Don't start throwing all your "extra" money into personal or business investments quite yet. It's time to build your business emergency fund of 3-6 months of operating costs. In traditional business finance this is called retained earnings.

The purpose of retained earnings is fourfold: it helps you deal with any business emergencies, invest back into the business, take advantage of sudden opportunities, and have a way to supplement income during lean months. Keep this in a money market or savings account.

Baby Steps 4, 5, 6 & 7

Building Assets & Bigger Giving



Once you have completed the first 3 Baby Steps in both household and business, then you can begin to build some real wealth in both. For business now is the time to begin investing in mutual funds or business property (Step 4), funding your and your employees' education (Step 5), paying off business properties (Step 6) and doing some outrageous giving to your favorite causes and charities (Step 7)! Baby Steps 4, 5, 6 & 7 are done concurrently, or all at the same time.



Now you might be thinking, “This all sounds great, but **HOW** do I work those Baby Steps, when I can barely make my expenses, and struggle to make payroll every month?” I experienced this struggle firsthand as a healing artist, and coach. In the next section, I outline my practical tips for how to cash-flow your business and build wealth as a small business owner.

HOWTO IMPLEMENT THE STEPS



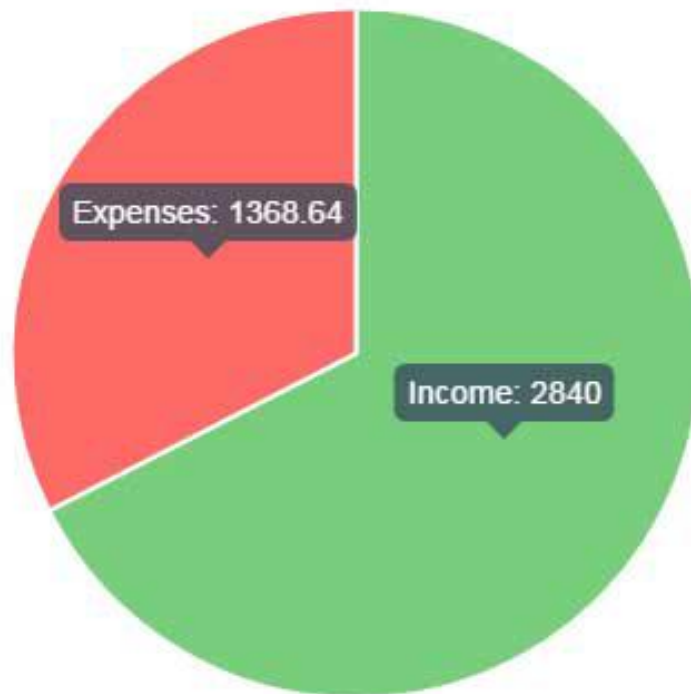
ACT YOUR WAGE & CUT COSTS

This was the most important step for me as someone who was knee-deep in business & personal debt. I had to let go of “keeping up with the Joneses” and cut my business lifestyle drastically. Since I have been a professional I have consistently made good money, but for years always outspent my salary. Acting your wage means not pretending to be wealthy, when you are actually in debt or have minimal retained earnings.

This time I was willing to not look good for a while, in order to get my personal & business life in order. I rented out a sublet space, made meals for my groups instead of hiring a caterer, did inexpensive advertising. I cut back on aspects of my business that were not profitable, and amped up hours in the sector that was netting a profit. Anyone can do this. Remember this is a temporary sacrifice, for a lifetime of financial security.

Where could you cut the fat out of your business, in order to free up cash for your goals?

INCOME AND EXPENSE CHART



KEEP EXPENSES AT 30%

Are your expenses eating up your salary? Speaker & teacher Mike Michalowicz says “Profit is not an event, it is a habit.” Make it a habit to consciously allocate a specific percentage of your income to expenses. For most businesses, a 30% expense ratio means you then have money leftover for taxes and a decent owner pay/salary. This 30% is out of Adjusted Gross Income, so if you have a product-based business, take your product cost out first before you do this percentage. If your expenses are higher than

30%, have a strategic plan to reduce them by 5% a month until you are at 30%.

What percentage of your Adjusted Gross Income are your business expenses right now?



SAVE UP FIRST

Don't be tempted to start your business using debt! Debt masks profit. To get your business started or to make improvements in a current business, save up cash first. 60% of businesses start with less than \$5000 cash. Whether you are creating a prototype product, investing in your first office supplies, or buying equipment to expand, use the leverage of your

current income to get things up and running. This step requires patience, and resourcefulness.

How much cash would you need to fund your most immediate business need?



RAISE YOUR RATES

How long has it been since you have raised your prices? What is the market value for your service? Have you reached that ceiling? It is important to have a strategic plan for raising your rates every few years.

First, research the market rate for your product/service in your area. Have you reached that level? If not, it is time to raise your rates! Mikelann

Valterra, Earning Institute coach, also recommends you raise your rates automatically if it has been longer than 2 years since your last increase. Finally, assess the demand for your business. Do you have a waiting list? Then it's DEFINITELY time to raise your rates!

You may also want to consider value-based pricing, rather than hourly rate pricing. In value-based pricing you create specific results for your customers in exchange for more money through bundling products/services, subscription or group programs, or intensive private sessions.

Third, communicate clearly with your current customers about your rate change. Let them know in writing(email, letter, text) that you are shifting your pricing. You can make your pricing immediate or give 1-3 months grace period for current clients to get used to the idea. You should lose some of your customers and gain new ones who value you more.

What has your rate been?

What rate is more appropriate for you now?



WELCOME
TO THE
HUSTLE!

BE WILLING TO WORK!

Another thing I recommend is to be willing to do whatever it takes to generate the cash flow needed to progress along the Baby Steps. It is common for entrepreneurs to want to blame the economy for their difficulties. Truth is, we all need to adjust when the market changes. I recommend dropping the “poor me”, and just getting down to work! This does not mean suffering, it simply means doing or delegating all the actions that are required.

When I was rebuilding my business I took on a few side hustle jobs, made 100 calls a month to keep up my client load, and applied for grants in my business. I went from working 20 hours a week in my “poor me” phase to working a good 40+ hours a week. If I could do it as a working single mom, you can do it!

Your work ethic and willingness to do whatever it takes are an essential part of your success. Even if you walk dogs or clean houses after your self-employed gig, you can make an extra \$1500 a month! Having more cash to pile on your debt snowball or build retained earnings helps keep the ball rolling!

What can you do to make extra money, beyond your regular work hours?

Revenues		
Fee for Service Income	\$47,500.00	
Finance Charge Income	\$ 38.00	
Other Income	\$ 1,500.00	
Total Revenue	<u>\$49,038.00</u>	
Expenses		
Rent	\$ 7,200.00	26.30%
Dues & Subscriptions	\$ 1,200.00	4.38%
Insurance	\$ 600.00	2.19%
Equipment	\$ 750.00	3.46%
Telephone	\$ 2,750.00	10.04%
Internet	\$ 1,140.00	4.16%
Supplies	\$ 2,371.00	8.66%
Advertising	\$ 1,500.00	5.48%
Taxes	\$ 9,750.00	35.61%
Bank Charges	\$ 120.00	0.44%
	<u>\$27,381.00</u>	
Total Expenses	<u>\$27,381.00</u>	
Net Income	<u>\$21,657.00</u>	

KEEP A BUSINESS BUDGET

The sixth thing I recommend is to have a monthly written plan for your business, aka: a budget. A budget for household AND business is necessary for entrepreneurs! If you are out of control at home it will affect your business, and vice versa.

Having a written plan means you are conscious of where your money is going each month, and you give every dollar an assignment. Whether you use a homemade Profit and Loss statement, business software such as Quickbooks, or a simple household budget such as Dave Ramsey's Everydollar, all that matters is that you understand your budget and that it works for you.

A budget helps you move along your Baby Steps, and shows which categories in your business are out of balance. I talk to a lot of people, for example, whose business expenses equal their income. This is what is called a hobby.

A true business actually creates a net profit for you. And a profitable business actually creates enough profit to be able to give, save & spend. When you see where your money is going you begin to feel more in control. A budget is empowering!

* A note on hiring bookkeepers: I have had 3-4 bookkeepers in my 20 years of small business ownership. I've found that they are helpful to help organize the numbers, but they are not your boss. You still need to be the one to look at your percentages, track profit, and make strategic decisions.

Remember, they work for you, and should support your goals for business wealth-building.

How could you start or upgrade your household or business budget?



PAY YOURSELF FIRST

Use the "Baby Steps" of Wealth-Building to begin to build some retained earnings for emergencies, market fluctuations, and business expansion. Set aside a percentage of your net income in your monthly business budget for: 1) Baby Step 1, \$1000 in business savings, 2) Baby Step 2, paying off all business debt, 3) Baby Step 3, 3-6 months operating

expenses and 4) Baby Step 4, serious biz wealth-building.

How much could you set aside this month for your business Baby Steps?



GROW PROFIT FIRST

Look at your business and determine which products/services are profitable, and which are not. Remember, net profit is gross income minus business expenses. A business which just covers expenses is called a HOBBY! Spend most of your energy growing those aspects that are profitable. Decide if you want to continue the "non-profitable" aspects as a hobby or if you want to cut them out completely.

What products or services in your business are profitable? Which ones are not?



Now you are the King or Queen of Cash Flow! You should have regular income coming in from your business, money in business savings, and no business debt at all! Your cash flow is funding your lifestyle & your longterm wealth.

Congratulations!



Kathy Kali, CFC, has been helping people make more money and manage it well for the last 20 years. A performing artist for much of her life, Kathy also holds degrees in Women's Studies, Certified Master Financial Coaching & New Thought Prosperity Teaching. Kathy's mission is to help artists, healers, ministers, coaches, and other heart-centered people build wealth so we can all make the world a better place.

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