

SMALL BUSINESS MATTERS

Financial Management: Manage Your Debt, Weather the Storms!

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Debt can be a wonderful tool, and if used wisely, can lead to both personal and business financial success. Nonetheless, in any situation there could be unexpected set backs that increases the difficulty of paying bills, especially meeting those required payments associated with loans and lines of credit. It may require sacrifice and careful planning to meet your obligations when times become difficult.

Should debt be mismanaged or over-extended under normal circumstances when things are going relatively well, then unexpected expenses could mean financial ruin for your business or even for you personally. Understanding debt or use of credit is a crucial aspect of any financial decision whether personal or business related. So we all know this, right?

You may already understand how to best manage debt, know the basics, or maybe need some help in this area. Whichever applies, there's no such thing as having too much knowledge. Understanding debt is much the same as managing your money, as proper use of it can lead to saving you money and giving you access to cash when you need it the most. Here are some guidelines to keep in mind when managing your business finances. Many of these may also be applied to the management of personal finances.

- ✓ *Determine need versus wants but do not forget "return on investment" (ROI) to stay competitive.* For instance, a need is equipment repair, a want could be executive office furniture, and ROI could be regular maintenance of a facility to maintain quality, image, and customer perception.
- ✓ *Create a living budget to understand your expenses.* Whether a business or household, find unnecessary spending and eliminate it. Also outline essential expenses and budget for them.
- ✓ *Know the appropriate types of financing.* Use term loans for asset purchases, lines of credit for periodic short term working capital or cash requirements, and credit cards for monthly expenses.
- ✓ *Use credit cards only for convenience and pay them off each month.* Avoid paying high credit card interest. If you have credit card debt that you cannot pay off each month consider using a term loan or credit line instead for outstanding balances. Adjust your spending patterns so that you can pay off credit cards monthly as you go forward.
- ✓ *Plan for the expected but prepare for the unexpected.* You plan for events such as proposed business expansion but prepare for events such as major equipment failure.
- ✓ *Incorporate long term goals in to the use of debt.* You need to know where you would like your business to be in 5 or 10 years. This way you can evaluate the progress of long term debt repayment.
- ✓ *Seek advice.* The most important step any entrepreneur can take is to know to seek advice when required from professionals such as accountants, financial planners, trusted associates or family with knowledge of business financing.

The above guidelines seem like common sense but it is not always so easily done in practice. So, take the time now, and often, to review your finances. *Manage your debt, weather the storms!*

For more information on business financing and other services of CBDC South Coast call 1-800-303-2232 or 538-3846.