4 Critical Financial Considerations for Startup Owners

Have you started – or started thinking about – launching a business? Here are four financial elements you must think about that could help you avoid needless worry down the road.

ROI GROUP

GUIDANCE, EDUCATION & STRATEGY

People who start businesses are usually aware that doing so is no easy task. They know that starting a business is risky, that there are no guarantees of success, and that their efforts will be their business' driving forces.

But while entrepreneurs are brave visionaries, they sometimes forget or get tripped up on covering some critical financial bases. If you've started or are thinking of starting a business, here are four elements to consider that might help make the difference between your venture's success or failure.

Setting Aside Funds for Taxes from Day 1

Unfortunately, taxes aren't any more fun for businesses than they are for individuals. And while tax planning is among the least sexy elements of entrepreneurship, it is one of the most important.

Depending on your business class (C or S Corporation, LLC, etc.), a general rule of thumb is to set aside 40% of sales/revenue/income to pay local, state, and federal taxes each year. There are various factors and variables, including quarterly payment schedules, salaries versus distributions, employee payroll tax, and more. Working with an accountant and business advisor experienced with tax planning is a key step for entrepreneurs.

Building Cash Reserves for Unforeseen Expenses

Saving money and putting earnings back into the business seem like obvious, critical aspects of startup growth. But you might be amazed at how many entrepreneurs and small business owners are dedicated to paying themselves – and even other founders and employees – bloated salaries early on in the life of their businesses. This is especially problematic with successful startups.

Even if you've budgeted all expenses against all *foreseen* expenses and net an expected profit margin of 30%, this doesn't mean that your profits should go immediately into your pocket from day one.

What if your costs of goods rise? What if a piece of equipment breaks? What if you are fortunate enough to have early success and need to hire? All of these scenarios – and other unforeseen ones – are common with startups and create the need for you to build cash reserves early on.

Having this kind discipline and commitment to the long-term goals you've laid out isn't as fun as padding your wallet, but could be a critical factor in determining if your business succeeds.

Protecting Personal & Business Assets

The "I" word – insurance – is another element of running a business that is not exciting, but vital.

Depending on your company and industry, there may be some mandated or at least strongly recommended types of business-related insurance you need, such as Product Liability, Errors & Omissions, and others. Having these types of coverages protects your business and its assets.

But it's also important for you as a business owner to protect your personal assets, for yourself, your family, and your company. Personal insurance coverages, retirement planning, and individual tax strategies are among the ways you can protect your livelihood.

Developing a Compelling Elevator Pitch

We know what you're thinking: "How is an elevator pitch related to business finances?" If you've worked in sales, you understand, and as a business owner and entrepreneur, you are your company's top sales representative.

The ability to articulate exactly what your company does, what problem it solves, who benefits, and what product(s) and or service(s) it provides could create business opportunities. A compelling, 30-45 second business pitch can gain and keep the attention of someone who could be a potential customer or business partner.

Whether you are networking at an event, giving a business presentation, or, yes, even making small talk in an elevator, being able to explain what your business does and why is a critical element for startups. Unfortunately, sometimes this small step isn't taken.

Learn More

We invite you to read our blog "The ROI Factor" at www.theroigroupllc.com/the-roi-factor, to learn more about these and other business issues.

550 American Avenue, Suite 203 • King of Prussia, PA 19406 • Office 610-265-5900 • Fax 610-265-5913 • www.TheROIGroupLLC.com

If you are interested in a free, no obligation discussion with one of our experienced business advisors, please contact us at info@theroigroupllc.com.

Securities offered through Registered Representatives of Cambridge Investment Research, Inc. a Broker/Dealer, Member FINRA/SIPC.

Investment advisory service offered though Investment Advisor Representatives of Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor.

*Cambridge and The ROI Group **(Reliable, Objective Information)**, LLC are separate entities.*