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Blue Ribbon Business

Business Management and Leadership Topics for the Horse Industry

SMALL BUSINESS MANAGEMENT

Healthy, Wealthy and Wise

Financial Strategies for a Sound Horse Business

Just as you are considered to be an individual and separate from other individuals, your horse business is considered to be an entity of its own, separate from you. Just as your blood circulates through your veins and keeps you alive, cash runs through your business and is what keeps it alive. If there isn't enough cash to keep circulating, you'll find your horse business losing its feet. The following financial strategies will assist you in keeping your horse business alive and sound.

1) *Keep your personal and business records separate.* Establish separate banking accounts for both, and don't co-mingle bill payment.

2) *Know thyself.* What are your own comfort levels for risk? Talk this over with an attorney and accountant to determine what form of business is best for your enterprise. A sole proprietorship is the simplest form, but in this form of business you as the owner assume all the risks of your business. If you organize under another form of business, your personal financial risk is minimized.

3) *Conduct a financial analysis of your horse business*. A financial analysis examines the trends that your business is experiencing. To do this you'll need:
   ~ at least 3 years of balance sheets and income statements. This is a good way for you to make friends with these financial statement tools too. You wouldn't groom a horse without a hoof pick, so don't try to run your business without these basics either;
   ~ one year cash flow projection, broken down by month;
   ~ history of your horse business;
   ~ history of the horse industry and your sector in it;
   ~ any data to make comparisons to others in the same line of business.

   You will use this information to examine your business by comparative financial statements (categorizes by dollars), common size financial statements (categorizes by %), and ratio analysis.
   Ratio analysis reveals the relationships of two financial categories. Contrary to many people's perception, numbers are not mechanical, and don't necessarily mean one thing or another. A ratio analysis provides clues and symptoms of the underlying conditions of your horse business. This analysis can point to an area needing further analysis. Ratios can be thought of as flags – green, yellow, and red.

4) *Understand your cash flow cycle.* You may do the math to figure out that annually your revenue will generate a profit for your horse business. A cash flow projection asks you to take a realistic look at when the money comes in and when it goes out, or the way cash moves through your horse business. If you're required to make big payments early in the year, for insurance or hay for example, and your income isn't generated until 4 months later when the weather is good, you will experience a cash flow crisis unless you've made prior plans for short-term coverage of this expense. This short-term debt coverage will most likely cost you something, in terms of interest, which then has an effect on your profitability. If you haven't taken this added expense into consideration in your pricing, you may discover that your margin is much narrower than you originally projected. Remember that your income tax is paid with your profit, but your BILLS are paid with cash! The key to good cash flow management is to remain solvent at all times. Prepare three estimates: low, high and most likely. Be conservative when estimating cash receipts, and liberal when estimating cash disbursements. Signs of good cash flow are that costs are in order, sales and collections are working together, and your horse business profit margins are protected. Signs of bad cash flow are decreasing liquidity (refers to the ability to turn assets into cash), excessive short-term debt, missed discounts on payments, and slow collections.

5) *Construct a budget and use it.* If you've put your cash flow projections together you really have accomplished the construction phase. Review your budget monthly. Is there a large variation in your projection and reality? If so, why? Have you included a line item to account for money that you'll put aside for emergencies, and to replace equipment? All businesses encounter unexpected expenses, but if you plan ahead for these occasions they will be easier to work through, and your business will survive. If you're experiencing many unexpected expenses, your budget was not constructed with enough knowledge and research. Another point to remember is that your budget will grow with your business.

6) *Evaluate your operating expenses.* How can you reduce these? Any reduction you make here adds to your bottom line. Ideas here include:
~Can you reduce your long distance phone bill by sending email for some communications that you previously would have phoned?
~Are your insurance rates the best you can get for a reliable product? Do some comparison-shopping close to renewal time, but remember to compare apples to apples.
~Can you make your marketing money work more effectively for you, or better yet, find ways to get the exposure you need for less? Check with your professional associations for collaborative opportunities they may offer. Consider establishing cooperative advertising with some of your peers. Contact your local trade journal to see if they will establish some cooperative efforts.
~How can you use the internet to increase your operating efficiency? Do you publish a newsletter that you can distribute on-line instead of in hard copy, thus saving paper and postage costs? Have you looked into free list serves that can help you with this? Remember that if you distribute this way, that it must be with the recipient's prior permission. How about ordering you your office supplies on-line? Many stores offer free delivery, which saves you travel time and gas money.
~How's your inventory? Do you store too much grain and hay at one time, so that some of it gets spoiled and needs to be thrown out? Do you have extra tack sitting around getting moldy because it never gets used? If you sell tack or other products, does it turn over in a timely fashion? You don't want your money tied up in a product that doesn't sell, just as you don't want to run out of one that does.

7) *Collect what's owed to you regularly*. Do you give credit to your clients and customers? If so, how are your collections? Do you invoice on a regular basis? Do you have many accounts that are way overdue? Your accounts receivables count towards your revenue, but not if you can't collect. It's not money in the bank until it's at least money in your pocket!

8) *Look for help.* If the financial end of the business is not the part that comes naturally to you, get help. If you don't heave enough hours in the day, get help. The Small Business Development Center and SCORE will provide free assistance with some of these projects. Check with your professional associations to see what they offer. You may find an MBA candidate that will work for you on a project basis for a low fee. You can also hire consultants and accountants to assist you.

The bottom line is this: Have a financial strategy, review it regularly, make readjustments as needed, and get help. As your business grows you'll be considered a horse business that's healthy, wealthy, and wise!

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