

Essential tips for starting your own small business

By [Alan Shannon](#)

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Running a successful business is the ultimate goal for all entrepreneurs. A grasp on business basics, keeping financial information, properly managing your banking relationship, and understanding business key performance indicators can be the difference between a successful business and one that fails.



Alan Shannon, executive: small business services at Nedbank | image source: supplied

A grasp on business basics

As you plant the seed of your entrepreneurial endeavours, it must be nurtured by an understanding of business basics. For instance, you need to determine the priority your business will take: will you be running your business on a full-time or part-time basis? You also need to develop an idea of the financial and legal risks that can affect your business. Additionally, you have to decide on the type of ownership suitable for your plans: do you want to set up a sole proprietorship, a partnership, or a company?

Understanding business basics also requires you to think about the type of equipment you will need to meet your business goals. When you master the basics of your business, you are in a position to determine what it will take to make it work.

Keeping financial information

Information management is at the core of most businesses. Financial information is of particular importance because it has a bearing on the long-term survival of your business. Financial records are also helpful for legal, tax and funding purposes. Bank statements, invoices, supplier documentation, correspondences and cash receipts form the financial information you must keep for your business.



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Financial statements such as the statement of financial position, income statement and the cashflow statement are also vital. These provide insight into the soundness of your business, and you can use them as a yardstick to see if your business objectives have materialised as projected.

Managing your banking relationship

The quality of banking that you can access plays a pivotal role in the ease of running your business. Nowadays, you can access quality banking at a reasonable cost. It is essential to establish a good relationship with your banker through networking, keeping in touch, and explaining your business vision and business goals. Having the right business banking partner will assist you in your business's financial success.

For example, suppose your business is seasonal. In that case, your banker could help you with a short-term business loan that allows you to meet fixed costs that your business might incur when the demand for your offerings is temporarily low.

Your banker can also arrange for you to pay favourable interest rates on your credit or give you investment incentives that make it practical for you to retain profits and reinvest in your business.

Understanding the key performance indicators of your business

A business owner is expected to know the health of their business and how it has been faring since it started operating. Even when you start looking for funding or business partners, you have to be in a position to give a numerical summary of your business. Financial ratios are a form of key performance indicators (KPIs) that you might benefit from knowing.



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You will find out that different elements of your business are interlinked. For example, the net profit after-tax is measured against current and fixed assets, giving you a profitability ratio that indicates the overall return on assets your business is generating. You can also run an acid test to deduce the liquidity of your business helping you avoid a potentially crippling cashflow haemorrhage.

Profitability, liquidity, solvency, efficiency, and break-even ratios are some of the main categories of ratios used in

assessing and identifying problem areas within your business. Ratios tell a story about your business and they often form the basis of the decisions both you and your banker will make.

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