[CAPITAL DISCOURSE]

MANAGE CASH FLOWS WELL

It is important for an entrepreneur to use his capital proficiently. Read on to find out effective ways to manage your money

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Meeting deadlines, adding value to your enterprise, juggling priorities, wearing different hats are a part and parcel of every entrepreneur's life. Whilst there is a certain high that comes with all of this, it is also crucial for an entrepreneur to critically manage his money. Efficient use of capital plays a big role in any entrepreneurial journey.

There are two phases where managing money is absolutely critical:

Phase 1: Whilst you are planning to set up

Phase 2: In the first 18-24 months of the business

Money management during these two phases can go a long way in ensuring that the business reaches a stage where it is robust enough to survive, grow and flourish over long periods.

Entrepreneurs also need to lead their personal lives, even as they go about building a blueprint for the business that is closest to their heart. We would recommend that entrepreneurs focus differently on their personal and business finances.

Personal finances

Create a large contingency fund: It is advisable to have 12 to 18 months of personal expenses (including personal EMIs) in financial instruments, where they can be accessed immediately, as well as have no significant risks of capital loss.

Instruments like bank deposits and debt mutual funds without a lock-in are superior options for early entrepreneurs vis-a-vis instruments like Public Provident Fund (PPF) and Employee Provident Fund (EPF) which work better in the long term.

You may need to start drawing a small compensation during the latter part of the early phase, so seek tax efficiency as well.

Get covered against risks in personal life: It is prudent to have adequate life insurance (buy term insurance as it is the most cost efficient) so that debts and living expenses of your family are adequately covered. Health insurance is also vital.

Business finances

Avoid risky investments: The best returns over a period tend to come from your business, so avoid other risky investments in this stage. For example, do not temporarily park funds into equity markets or real estate. At the same time, optimize your returns depending on your cash flow requirements, by building a tiered investment strategy. In case you can't do this yourself; use the services of a financial planner.

Focus on good costs: With a large number of businesses starting without any external funding, and sustaining using only internally generated cash flows, it is crucial to keep costs under control. Look at costs as good costs and bad costs. Good costs are those that have a high probability of a success outcome, whereas bad costs are those with a low or no probability of success. This definition may vary from business to business. For example, a swanky office may be a good cost in a consumer business, and a bad cost in a B2B model.

Use technology tools to the maximum:
Through the use of technology, it is now possible to manage your cash flows efficiently with minimal commitment of your time. Understand how you can use technology to manage cash flows and get superior returns on your temporarily idle cash in this phase.

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