

# How to start building an emergency fund for your small business

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Make sure your business is ready for a rainy day



## Your quick guide to the benefits of an emergency fund for your business

**W**e're happy to see you here, digging into another educational resource developed to offer you valuable information on building a financial cushion for your business.

The havoc wreaked upon the business community by the COVID-19 pandemic has proven that it's always best to be prepared for the worst. That's why we put together this helpful guide, which offers you hints and tips for building a cash cushion that can help shore up your business during lean times.

We're here to help, so if you have questions or would like to consult with a member of our team, please reach out to our firm today.



## Can your business weather a storm?

It's often said that small businesses are the backbone of the American economy.

In 2019, the SBA Office of Advocacy issued a report showing that small businesses accounted for close to half—44 percent—of U.S. economic activity. Then came the COVID-19 pandemic, which forced small businesses across the country to either shut down or find a new model to survive. Unfortunately, not all have recovered; a May 2021 World Economic Forum report showed that 34 percent of small businesses remained closed.

As we write this eBook, the pandemic still isn't finished with us. So, it's hard to say how many owners have needed or will need to tap their emergency fund to keep their companies afloat. However, we're learning through surveys that, so far, anywhere from 4 to 20 percent of small business owners have accessed their savings to keep their businesses running. And it appears that at least some of those owners have needed to raid their personal savings or retirement accounts, endangering a lifeline originally meant for themselves and their loved ones.

While we can't predict whether future events that affect your small business will be world-rockers like a pandemic, we can help you get started on strengthening your own small business with a financial umbrella that can help protect you from the proverbial rainy day—or the perfect storm.

### Small businesses struggle in 2021

- 3 in 10 U.S. small businesses say they won't survive 2021 without additional government assistance during the pandemic.
- 8 in 10 minority-owned businesses say their companies are in poor financial condition.

Source: 2021 Federal Reserve Bank survey

## Why you should have an emergency fund for your small business

A pandemic brought the importance of having a financial cushion for your small business into focus, but it's not the only reason to be sure you have funds to fall back on when things get rough. Depending on the type of business you own, there are dozens of potential "What ifs...?"

### **What if...**

you lost your most lucrative client?

### **What if...**

someone fell and injured themselves in your store?

### **What if...**

you needed to upgrade your IT system?

### **What if...**

your delivery truck died?

### **What if...**

a fire, tornado or flood destroyed your business?

### **What if...**

you were diagnosed with a serious illness?

Any crisis, large or small, can spiral into a situation that can financially devastate a business owner, both professionally and personally.

“ Depending on the type of business you own, there are dozens of potential ‘What ifs...?’ ”



## Where do you start?

When you're already on a tight budget, it can be a challenge to put extra money away. But it's better to start small than not start at all. Here are some tips to get you thinking:

### 1 Review your budget

Take a look at the last 12 months of cash flow—or 12 months of projections, if your business is still new—and identify the expenses you'd have to pay even if your income stopped. Include rent/mortgage, payroll, benefits, taxes, utilities, business insurance, loan payments and anything else that needs to be paid. Total up those expenses, divide by 12 months to get your monthly expenses, and multiply the result by the number of months your reserve should cover. (FYI, financial experts traditionally advise three to six months' worth of expenses, but the lessons of the pandemic have some experts calling for a 12-month cushion. Do what works best for you.)

### 2 Consider other available financial resources

Do you have other resources that could help you survive if your salary stopped? This might include a spouse's income, personal savings or retirement funds. Don't forget to also account for possible scenarios, like a spouse's layoff, that could affect the availability of those incoming funds.

### 3 Set the guidelines for an emergency

Take time now to decide what constitutes an emergency. We're talking my-business-can't-survive-this types of emergencies, not a slow month for sales. A natural disaster? A slip-and-fall lawsuit? A long-term illness for you or an essential employee? An expensive vehicle repair (if its use is vital to your business)? Those are the kinds of emergencies that can quickly add up and start a downward spiral.

### 4 Separate your savings

Don't mix your emergency account with your personal or business checking or savings account; open up a separate account. Make sure it's easily accessible (in other words, no certificates of deposit that have a set term), but not too easy to get to. This may seem overly simplistic, but consider naming the account something that will remind you of your goal every time you see it. "Emergency Fund" may not be catchy, but it reinforces its purpose.

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## 5 Start small if it's easier

Don't strangle your day-to-day cash flow, but whether it's \$50 or 5 percent of your profits, commit to a set amount per month, deposited automatically to your designated account (set up an auto-deposit; you won't miss what you don't see). At the beginning, focus on developing a saving habit. You can increase the amount and/or the frequency over time.

## 6 Keep goals manageable

Don't get obsessed with saving three months of expenses RIGHT NOW. Start with small and achievable short-term goals—like saving 10 percent of your profits for three months in a row. Once you hit your first goal, increase your second goal a bit, and so on. If business is slow, the increase can be smaller. If business is very good in a particular month, add a little more.

## 7 Reduce spending where possible to help your savings grow

This is a good time to take an objective look at what you're spending on extras. Are there discretionary expenses like memberships or subscriptions that could be cut? Could you hold off on business travel and go back to Zooming? Shop for lower insurance or other prices? Are your suppliers open to price negotiations? Could your business be done in a smaller office/shop, or even remotely?

Keep in mind that while you're building your fund, there are other resources available to help small businesses weather tough times:

- **A line of credit:** If you have good credit, consider applying for a line of credit from your bank or credit union now; should disaster strike, it may be too late to apply at that point. Even if you never use it, you know it's available.
- **Small Business Administration (SBA) loans:** The SBA offers low-interest loans for businesses that have been affected by disasters, along with other types of business loans. Visit [SBA.gov](http://SBA.gov) to learn more.
- **Investors:** Keeping in mind the evergreen advice not to mix business with friendship (so this should be considered a last-ditch effort), if you have friends or family who are willing to invest in your business, it may give you some breathing room—and a cash infusion.

## Know the SCORE

SCORE, the Service Corps of Retired Executives, is a nationwide network of expert business mentors and volunteers who share free advice with small business owners.

Visit [score.org](http://score.org) and search for "emergency fund" to find a detailed checklist to help you set up your emergency fund—along with many other helpful resources.



We hope this guide will serve as a good starting point for building an emergency fund for your small business. Now that you have the elements of a plan, it's time to get started. While you may not be able to avoid that rainy day or a full-fledged storm, you can keep everything you've worked so hard to build safe and protected.

**If you'd like help or want more information on keeping your small business afloat during tough times...**

Contact us today! Simply click the **GET IN TOUCH** button and complete the brief form or give us a call. Remember, we're here to help.

