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Managing Your Home Based Online Business - 3

By Roy Thomsitt

When you have your own home based business, whether it is online or offline, financial

management is one of the key "departments". You really do need to keep on top of your finances if you want your own little business to have long term success, and you can do that by being a manager rather than by adopting the role of a low rank employee.

Why do you need to manage the home business finances?

It is so easy to allow things to drift when you're working at home, and concentrate merely on totting up the sales revenue. Remember, this is what may happen if you do not positively manage your business finances:

1. You will experience cash flow problems. Allowing cash to flow in and out at its own will almost ensures a failed business. If you are blessed with masses of sales income in the early days, then you will have time to put things right. If you don't, then you may run out of time. Cash flow will bring you down. One of the most common causes of business failure is cash flow, and many of those businesses could have flourished with better financial management.
2. It is inevitable your business will be less profitable than it could otherwise be. Financial alertness, which financial management will bring, ensures you are making better and more timely decisions. That results in more profits and better cash flow, and ultimately the survival of your home business.
3. If you are not watching your finances closely, it is easy for you to continue with unprofitable activities, programs and products. For example, you may be an affiliate for 3 products. The one bringing you the highest commission each month may be unprofitable without you even knowing it, if you are not tracking the spend on advertising that product.
4. Your business may not grow as it otherwise could. If you do not manage your finances, how will you ensure that part of the profit is put into growing the business, for example with more advertising or other forms of marketing. Also, you need to budget for increasing your knowledge.

How do you manage the home business finances?

If you own a very small online business your financial management will not take up much time. The best time to set things up to keep the right sort of records is at the very beginning, when you first set up the business.

This is a massive subject if you want to go into fine details, it would require a large manual. I will cover here just a few points. Bear these points in mind in the context of your own home business and circumstances, and you should get your business onto a sound footing, from which you can develop more sophisticated systems if you need them.

It is very likely that your records will only need to be very simple at first, but it makes sense to get some sort of information structure in place right at the start, then as things expand for you, there will no need to play catch up. Your home business will flourish if you have your finger on the pulse of its finances at

all times. Here are a few suggestions:

1. Just as a CEO calls for regular finance reports in a company, you, as CEO of your own online business, need to ensure that your finance director, also you, provides all the necessary information to satisfy your needs for statutory returns (eg your country's tax department) and for monitoring the different elements of your business. In effect, you have 2 separate but integrated sets of records. The first is for the true financial accounts, which are for your statutory needs. The other is your set of management accounts. In other words, you also want a management information system that helps you make decisions that will improve the profitability of the business.

Management information system sounds very grand, but it need not be. It should just provide you with enough information to make timely and sound decisions, such as when to drop a particular program from your portfolio. I have dropped a number of affiliate programs in the past because their return, if any, did not justify the amount of time and expense being dedicated to them. I was only able to do that because I had enough information to make the decision, sometimes very soon after joining a program.

2. Try to set aside a time each week or month to review your finances. Prepare a monthly profit and loss account covering the whole business to see the overall position. Also, try to break that down in a way that helps you see the profit and loss of each product or online program which you may be marketing. Use that as a time, but not the only time, to consider decisions about increasing activity in, or dropping, a program or product, or to alter their marketing mix..

3. When setting up your expenditure records, consider which costs will be fixed each month, and which are variable. A fixed cost is an overhead such as power for your home office, or your internet and computer expenses. A variable cost is more under your control in the short term, for example advertising costs.

4. If your business comprises more than one online program or product, (for illustration A and B) try to allocate as much expenditure as possible to either A or B. This becomes part of your management information. You can use it to see if A and B are profitable. If you cannot allocate the expenditure

precisely between A and B, use your best guess. If you cannot do so, then consider if the expenditure is really a fixed cost.

5. Ensure your income records keep track of where income has come from. This will be used with the expenditure records in 4. to track profitability of different products.

6. If you are dividing your time between A and B, try to jot down each day the time spent on each in particular. This information may one day help you to make an important decision. Time is a limiting factor. You need to make use of it. If your time comes under pressure, there will come a day when you will need to decide how your time is most profitably spent.

You may find some surprising results. I once had an advertising sales business, and my partner and I sold space in 7 specialist magazines. One of them only brought in a few hundred pounds each month, and my partner wondered if we should drop it. When I checked back a year for the times spent on that and other magazines, the one she wanted to drop actually brought in the most revenue per hour of all of them. So we kept the magazine going, and it later expanded. Without those time records, we would have made a bad decision without ever knowing.

7. From the start of your business activity, try to formulate a plan and a budget. This will help structure your financial management. Do not worry if your first forecasts are wildly out. As you gain knowledge of your business and its market environment, your forecasts may improve. The important thing is to keep in the management way of thinking. That will help you keep your finger on the financial pulse. Your business will be more profitable in the long run.

8. In conjunction with 7. prepare a cash flow plan and keep it updated. This could be a saviour for your business, and avert unnecessary pressure on yourself later.

The above has only really been an introduction to the subject of financial management of your home business. You will be doing yourself a great favour if you try to learn bit more each month about the different elements mentioned.

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By Borislav Kovachev

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