

# Financial Concepts

**Business & Banking Setup**  
**Taxes & Statements**  
**Pricing Strategy**  
**Employees**  
**Cash Management**

## Business & Banking Setup

Key Partner: Accountant / Payroll specialist

Key Position: Bookkeeper

**1st Thing:** create budget baseline and multiple scenarios of projected financial analysis

- Building Remodel & Equipment Cost Estimate
  - **Template: Mod4\_2 Financial Demo Remodel Inventory**
- 12 month Profit & Loss projection
  - **Template: Mod 4\_3 Grocery Financial Analysis**
    - *\*Can be used to estimate prior to opening and track data once you've actually opened*
    - When making a projection, create multiple scenarios of high and low revenue and expenses
- Projected Balance Sheet
  - **Template: Mod 4\_4 Pro Forma Balance Sheet**

### **Bank account setup and configuration**

- Checking
  - Receive credit card (auto) and cash (manual) deposits
  - EFT payments to vendors
- Savings account(s) (grocery stores tend to operate on a weekly money cycle but many major expenses are monthly so savings accounts can help ensure money is set aside each week to cover major expenses)
  - Taxes
  - Loans / lease payments
  - Other large expenses
- Rewards credit card
- Quickbooks Tasks
  - Categorize expenses
  - Reconcile bank and credit card statements

- Enter invoices in Quickbooks with payable date at max allowable on invoice (i.e. net due 30 days)
- Pay bills
  - Print checks based on payable date four days in advance of payable date, sign and mail
- Monthly/annual financial reporting

### **Automatic vs. manual bill pay**

- Keep things manual early on to keep a closer eye to make sure everything is running smoothly
- Schedule of EFT to always make sure you have the funds to cover the daily transfers
  - **Template: Mod6\_2 Vendor Schedule**
- Who is prioritizing manual bill pay in the event there aren't funds to immediately pay all due bills?
  - Where might you be able to find cash if you need to add money into your business in the first year or two?

### **Building**

- Buy / rent / rent to own / remodel
- Build

### **Utility account setup / transfer**

- Done in much the same way as it would be for a private home
- Work with local providers to get the services you need

### **Types of Ownership Models**

- LLC – simple, easy to setup, easy to operate while still having a corporation structure in place, income passes through to members personal tax returns, liability protection is limited
- S corp – allows for selling shares and following a corporate structure, income passes through to members personal tax returns, some tax benefits with owner receiving salary and dividends
- C corp – standard company setup, shares can be sold, best liability protection for owners of all the structures, income is taxed at the company level and dividends paid to shareholders taxed again as personal income
- Cooperative – a non-profit structure that returns extra income to users/members of the coop

### **Partners to know about**

- Network Kansas
- Small Business Development Center at a University in your state
- Rural Grocery Initiative (Kansas State University) or similar entity at a University in your state

### **Insurance Policies / Workers Comp**

- Work with your insurance provider of choice. An independent agent with ability to source from a variety of insurance providers can be advantageous.
- Types of insurance needed:
  - Property protection- buildings and contents
  - General liability- protects the business from incidents in which blame is placed on the business
  - Spoilage- protects against product loss from power outages, etc.
  - Cyber security- protects against customer information breaches such as credit cards, names, emails, phone numbers
  - Workers Compensation- covers the cost of addressing workplace injuries

## **Part 2: Taxes & Statements**

### **Sales Tax**

- In Kansas the state collects all the sales tax and then distributes back to county and city
- Work with your POS provider on getting the correct sales tax calculation set up in your system
- Understand if your business is on a prepay requirement in which you estimate what the sales tax will be ahead of time and pay a portion or if you strictly pay after the sales have been made
- Recommend looking at the sales tax figure on a daily or weekly basis and setting that money aside. The POS should be able to easily report this figure
- Best Practice: Determine what the average daily sales tax figure is and have that automatically moved each day into a sales tax savings account. True this number up with actuals on a periodic basis. Set the sales tax savings account up with the Department of Revenue to electronically transfer the sales tax owed on the due date.

### **Tax Filing**

- Provide Balance Sheet & Income Statement to Accountant
- 1099's – issued to all contractors showing total amount paid during the year
- K-1's – issued to all shareholders showing personal income tax impact from the business if using an LLC or S corp structure.
- Others, consult with your accountant as it will depend on exactly the type of ownership model you have

## **Payroll Taxes**

- Unemployment- paid by employer
- Social Security- half paid by employee through paycheck withholding, half paid by employer
- Medicare- half paid by employee through paycheck withholding, half paid by employer
- Federal Income Tax- paid by employee through paycheck withholding
- State Income Tax- paid by employee through paycheck withholding
- The state and the IRS will determine how often you have to pay the withholdings and the employer share of the Social Security and Medicare. You will submit one payment to the IRS with federal withholding, all of the Social Security and all of the Medicare. You will submit a separate payment to the state with the withholdings.
- Reference your state and the IRS for your specific requirements, but expect to have to submit the following in addition to the above payments:
  - Quarterly 940 showing total gross wages for the quarter and total income taxes withheld
  - Annual W3 showing total gross wages and total incomes taxes withheld for the year
  - Quarterly federal unemployment
  - Quarterly state unemployment
- Issue W-2's to all employees each January showing total wages paid along with total withholdings. Copies have to be sent to the state and the IRS.

## **Statements for Charge Accounts**

- Only allow charge accounts for well-established organizations you trust
  - \*Allowing someone to set up an account so you can keep their tax exempt status on file doesn't automatically mean they can charge on the account.
- Monthly Process: generate statements for accounts with balances
  - Run a POS report showing balances on all accounts
  - Use this report data to generate statements for these customers to be mailed or emailed to them for payment

## **Part 3: Pricing Strategy**

### **Fixed Costs vs. Variable Costs**

- Fixed Costs = externally set, cost is constant
  - Debt payments
  - Building payment
  - Utilities / insurance
- Variable Costs = you can control/shrink to some extent

- COGS (e.g. order a light truck here and there)
- Labor (e.g. cut back to only one cashier for the last two hours each evening)
- Marketing (e.g. take a break from paid advertisers to invest more time into free options like social media)

### **Budgetary Targets – Expenses as % of Revenue**

Example:

1. Variable Costs
  - a. Cost of Goods Sold: 68%
  - b. Labor: 12%
  - c. Marketing: 1%
2. Fixed Costs
  - a. Utilities: 6%
  - b. Debt payments: 6%
3. Your grocery wholesaler should have good data on average percentages stores in the area have for each cost and revenue stream. These are good benchmarks to compare your own store's performance against. Areas where your cost percentage is significantly higher indicate an area where you need to spend some time understanding what is going on and what steps can be taken to reduce cost for that part of your operation.

### **Cost / Margin / Price Image Management**

- Setting baseline margins by department.
  - Example Set
    - Meat Dept ~50%
    - Grocery Dept ~30%
    - Produce Dept ~45%
    - Bakery Dept ~50%
    - Health & Housewares ~25%
    - Frozen Dept ~30%
    - Dairy Dept ~25%
  - Departments in which you have higher labor cost and/or more loss from spoilage or trim need to operate with a higher margin target. Generally meat, produce and bakery will have higher margins and grocery, dairy and frozen will have lower margins.
- Strategically decide where to shave margins down and where to keep them higher
  - Example: fresh meat in an old fashioned meat counter is a competitive advantage that requires a decent amount of labor and easily justifies at least a 50% margin. Even so, you may choose to keep your hamburger at 25% margin

to create a draw for the entire department by keeping your best seller at a more competitive price.

- Weekly operations to handle invoices and manage frequently fluctuating costs (e.g. produce, fresh meat, DSD)
  - Review invoices compared to POS cost, update cost as needed, and review the new margin
  - Raise / lower the price as needed to meet your desired target margin
  - Update/reprint price tags as needed

## **Part 4: Employees**

### **Employee Benefits**

- Discounts
- Health insurance
- Store credit

### **Payroll Process**

- New hire paperwork required prior to first shift
  - Payroll specialist can help you determine your minimum required paperwork and the easiest way to report new hires to your state
  - Other documents you may have new employees fill out
    - W-4 (and your state's version)
    - I-9
    - **Template: Mod4\_5 Emergency Contact Form**
    - **Template: Mod4\_6 Direct Deposit Form**
      - You may choose to require this and not offer paper checks
    - **Template: Mod4\_7 Consent to Drug Test**
- Pull report of employee hours worked and conduct a review to make sure no errors stand out
- Send to payroll processor once approved
- Distribute pay stubs as needed (print or email)

## **Part 5: Cash Management**

### **Money Security**

- Storing cash in store
- Frequent bank deposits - balance affordability vs. security
- Bank Account Withdrawal privileges
- Access to petty cash

## **New Cash Drawers**

- Per day
- Per cashier

## **Template: Mod4\_8 Cash Drawer Setup Cheat Sheet**

### **Making New Cash Drawers**

- Bank Option
  - Recommended - if your bank is willing to work with you - they may charge a dollar or two for turning around a change request and even that needs to be compared to how long the manual option would take compared to the pay rate for the person doing it. Chances are, even if your bank charges, it's probably still cheaper.
  - Put the cash amount for the total drawer starting amount in a bank bag
  - Fill out a change request for your bank and put that in the bag
  - Take to your bank to have them fill the change requests
  - Put the ready to go bags in your most secure safe until time for them to be used
- Manual Option
  - You can count "yesterday's" drawers back down to the starting cash amount
  - Buy change as needed to get all denominations back to the starting drawer amount

### **Balancing Drawers**

- Night drop deposit or keeping in the store overnight
- Generate total sales from point of sale system
  - Will show sales data per lane / drawer
  - Should include breakdown for cash, check and credit card sales
  - Should also include refunds, canceled sales and any other employee entered adjustments
- Count the cash from each drawer
  - You can probably get cash bags from your bank
  - This gives you total cash
  - Subtract your starting cash
    - Quantities of each type of coin and bill will need to be specified so that starting drawers are always the same
  - This amount should match the cash total sales from your POS report
  - Process for missing money
- Once balanced, staple together the POS report, bank deposit slip, and any other paperwork used in the balancing process
- Enter data into Quickbooks

- Once a week, compare your POS reports with the credit card deposits that have automatically landed in your account

### **Community Donations**

- Strategically set your desired annual donations budget
  - You may choose to donate all cash, 50% cash & 50% food, or 100% food
- Designate one person, or a very small group to decide which donations to give to meet your budget
- When appropriate, it is fair to ask to hang your business' signage at the event, appear on marketing materials like signs and t-shirts, or other event items. Never hurts to ask and see what may be a good fit.