

Growing your Business

Re-investing your profits

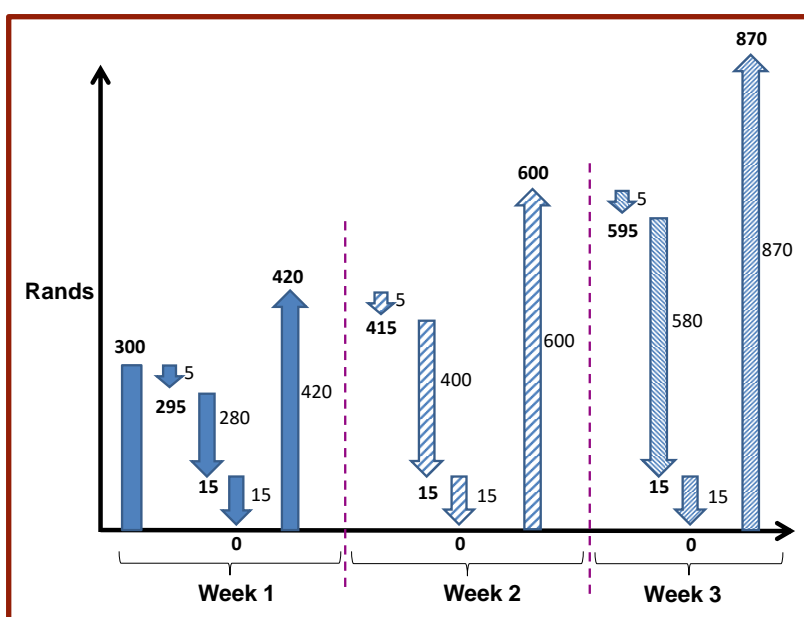
The best way to grow your business is by re-investing the profits. Often we get greedy as soon as we see our business starting to make a profit and we want to pull out the money to buy ourselves something like a new car. A wise business owner would rather re-invest and “ring-fence” their business money from their personal money. Once the business begins to grow, a salary can be taken but we advise that you always leave sufficient cash in the business to fund the timing of your expenses **and** whatever growth you want to see.

If you are in too much of a hurry to pay yourself a large salary, the business will never grow and you will also not have sufficient reserves to survive a downturn in sales, or an unexpected increase in raw material costs. We are so often tempted to show off our success or reward ourselves by buying things that look good on the outside but actually they put our business at risk and could cause it to fail. Delayed gratification rather than instant gratification is a far better long term outlook.

Worked Example:

Zoliswe has R300 in the bank and wants to start a business selling hand bags. The bags cost R20 each and she plans to sell them for R30 at the Saturday market. She needs to pay R15 for the store at the start of the market day and it costs her R5 in taxi fare to fetch the bags from her supplier. If she keeps putting everything she

makes back into the business and cannot go into debt, draw the projection of her monthly cash flow. How much profit does she make and how many units does she sell?



Think it through:

In **week 1**, Zoliswe could buy 14 bags if she spends the entire R300 but then she won't have enough for the taxi and to pay for the store. The cost of the taxi plus the cost of the store is R20 (5 + 15) which leaves her R280 (300 – 20) to spend on bags. So she is able to buy 14 bags (280 ÷ 20). If she sells each for R30 then she has a cash in-flow of R420 and her profit from the first week is R120 (30-20) x 14 - 5- 15.

Week 1 Profit = 420 – 5 – 280 – 15 = R120
 ➤ Cash on hand after week 1 = R420
Week 2 Profit = 600 – 5 – 400 – 15 = R180
 ➤ Cash on hand after week 2 = R600
Week 3 Profit = 870 – 5 – 580 – 15 = R270
 ➤ Cash on hand after week 2 = R870

In **week 2**, she now has R420 of cash on hand that she can spend. After allowing again for travel costs of R5 and R15 for the cost of the store at the market next week it leaves her with R400 to spend on bags (420 – 5 – 15). So in week 2, she can buy 20 bags (400 ÷ 20). If again she sells these for R30 she will have a cash in-flow of R600 and now has a profit of R180 (30-20) x 20 – 5 - 20.

In **week 3**, she can now buy 29 bags (600 – 5 – 15) ÷ 20 = 29. If she again sells these for R30 each she will have R870 of cash on hand (29 x 30) and will have made a total profit of R270 by the end of week 3.

Taxi cost per trip	R 5
Store cost per week	R 15
Cost per bag	R 20
Selling price per bag	R 30

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8
Opening Cash	R 300	R 420	R 600	R 870	R 1 260	R 1 860	R 2 760	R 4 110
Less Taxi	R 295	R 415	R 595	R 865	R 1 255	R 1 855	R 2 755	R 4 105
Less Store Cost	R 280	R 400	R 580	R 850	R 1 240	R 1 840	R 2 740	R 4 090
Number of bags she can buy	14	20	29	42	62	92	137	204
Closing Cash	R 420	R 600	R 870	R 1 260	R 1 860	R 2 760	R 4 110	R 6 120
Weekly Profit	R 120	R 180	R 270	R 400	R 600	R 900	R 1 350	R 2 020
Cumulative Profit	R 120	R 300	R 570	R 970	R 1 570	R 2 470	R 3 820	R 5 840

If she keeps in re-investing her closing cash each week, after 8 weeks she will have made a total or cumulative profit of R5840. In just 2 months, she has made her R300 grow nearly 20 times and can probably now take out a salary for herself. It is often tempting to take your profits out and spend them on yourself but this example shows that by waiting and re-investing all of your profits back into the business enables it to grow quickly.