

## Chris's Corner: Clichés are not always true

I believe one of the first bits of advice I read or heard about being in business for yourself was “always pay yourself first.”

Almost thirty years later, I find this laughable and I am not sure why.

From a practical and historical perspective, I inevitably find myself getting paid last or getting paid after all my obligations are taken care of, but never, ever have I been first.

The reality of my situation, and I imagine most small business's situations, is that if you do not pay your vendors, your employees, your business obligations first, you are going out of business. If you go out of business, you are not paying anyone.

So where is the balance?

In my case, I am a sole proprietorship, I, by choice, do not pay myself a regular salary and do not pay myself every two weeks, like I do my employees. My wife works for me and she gets a modest salary, like everyone else, but I assure you it is the lowest paycheck I write.

We use that check to pay ongoing personal bills, etc..

The key to make the whole thing work is cash flow and living modestly, conservatively. I believe in avoiding consumer debt with the exceptions of real estate backed mortgages and, of course, auto loans (to a degree).

My personal opinion is most businesses fail simply because the operation cannot generate enough revenue to meet the owner's

personal obligations. They in turn take too much out of the business and end up struggling to pay their business expenses.

Or they have a hard time managing cash flow timing. If your business is growing and you're investing in labor, materials, inventory, etc you are going to paying out before you get paid back. You have to be smart as to how you pay for this growth.

I have made it a habit to monitor my accounts and obligations and when balances are abundant, I take money from operations accounts and hide it away into savings. Before I tap into savings, I leave it alone for several months to make sure I didn't misread the situation and I don't end up short in the operating account.

Then and only then do I make the investment in my business, knowing I have funds in hand to meet the new and larger obligations I am taking on. Yes, if I need this money for personal business I will take it after a period of time.

I like to scare myself into a scarcity mentality too and by taking what excess I have in the operating accounts, I force discipline on myself day to day.

Plus taking that excess money out of operating accounts and putting it into different accounts, gives you the ability to deal with the tax man. You have sales tax to remit the following month. Depending on what percentage of your transactions are taxable, up to 6% off your gross revenues are not yours. You have to file your quarterly estimates based on prior year's tax bill to local, state and federal. You have to pay unemployment.

Let's not forget that if you have employees, you are withholding taxes from them to pay to the government. This isn't optional.

How many businesses have gone under for simply being unable to pay their tax obligations?

It has not happened often but it had happened often enough that I have had to dip into savings after having two or three bad months.

Something most people disregard is that it is better to have variable expenses, tied to revenues, than to have fixed expenses. You buy everything on credit and your monthly expenses do not change too much. You save to buy that van or piece of equipment and you don't have that hanging over your head.

The concept of paying yourself first is pretty rare in the world by my estimation.

Live simply and save for a rainy day. Avoid long term debt.