7 FATAL CASHFLOW MISTAKES E-COMMERCE OWNERS MAKE THAT PUT THEM OUT OF BUSINESS

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INTRODUCTION

Hey there Online Retailer!

Are you concerned that you may be making serious mistakes when managing your e-commerce company?

As an e-commerce owner, you are responsible for making numerous financial decisions each week, including accounting, taxes, payroll, banking, and more.

It can be challenging to determine the best course of action and make sound decisions that will benefit your business.

We speak with e-commerce owners throughout the United States every week who are exceptional at providing top-quality services but struggle with the financial side of their business.

If this sounds familiar, rest assured that it's not your fault.

As an e-commerce owner, you have devoted over 10,000 hours to perfecting your craft and delivering exceptional service to your customers.

However, you may have received limited education and training on how to grow a profitable business.

Through our research, we've found that more than 90% of e-commerce owners make seven fatal cashflow mistakes when running their businesses.

The worst part is that even a single mistake can cause you to work harder than necessary and earn far less profit than you should.

Fortunately, all of these mistakes can be corrected with the right guidance, saving you valuable time and thousands of dollars.

In this guide, we'll discuss the seven most significant cashflow mistakes made by e-commerce owners and provide you with actionable solutions that you can implement immediately.

So let’s go over each of the seven biggest cashflow mistakes e-commerce owners make and what you can do to fix them today.

MISTAKE
#1

NEGLECTING TO MONITOR CASH FLOW

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Cash flow is the lifeblood of any business, and for e-commerce owners, it's especially critical.

In an industry where margins can be tight and competition fierce, keeping a close eye on your cash flow can mean the difference between success and failure.

One of the biggest mistakes e-commerce owners make is not monitoring their cash flow closely enough.

It's easy to get caught up in the day-to-day operations of your business, but failing to pay attention to your cash flow can lead to serious problems down the line.

Here are some specific reasons why monitoring your cash flow is so important:

- **It helps you avoid cash shortages**: By keeping track of your cash flow, you can anticipate when your business might experience cash shortages and take proactive steps to prevent them. For example, you might adjust your inventory levels or negotiate better payment terms with your suppliers to ensure that you always have enough cash on hand.
- **It helps you make informed decisions**: When you know how much cash you have available, you can make better decisions about how to allocate your resources. For example, you might decide to invest in new marketing initiatives or hire additional staff to support growth.
- **It helps you plan for the future**: By projecting your future cash flow, you can plan for big expenses or investments in advance. For example, if you know you'll need to purchase new equipment in six months, you can start setting aside funds now to cover the cost.

So, how can you monitor your cash flow effectively as an e-commerce owner?

Here are some tips:

- **Negotiate better payment terms with suppliers**: If you can extend your payment terms with your suppliers, you'll have more cash on hand to reinvest in your business.
- **Use accounting software**: This will help you track your income and expenses more easily, and give you a real-time view of your cash flow.
- **Set up a cash flow forecast**: This will help you project your future cash inflows and outflows, so you can plan accordingly.
- **Monitor your inventory levels**: Keeping a close eye on your inventory levels can help you anticipate cash shortages and adjust your purchasing decisions accordingly.

By making cash flow monitoring a priority, you can help ensure the long-term success of your e-commerce business.

MISTAKE

#2

NOT SETTING UP VENDOR PAYMENT TERMS

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NOT SETTING UP VENDOR PAYMENT TERMS

In e-commerce, it's common to work with multiple vendors to source products or materials for your business.

However, if you don't set up vendor payment terms properly, it can cause cash flow problems down the line.

Here are some tips to help you set up vendor payment terms effectively:

- **Negotiate payment terms**: Negotiate payment terms with your vendors that align with your cash flow needs. This might include extended payment terms, such as Net 30 or Net 60, that give you more time to pay your invoices.
- **Use a purchase order system**: Implement a purchase order system that requires you to generate a purchase order for each vendor transaction. This helps ensure that you only pay for what you have ordered and received.
- **Track your accounts payable**: Keep track of your accounts payable, which are the invoices you owe to your vendors. Make sure you have a system in place to manage and prioritize these payments based on their due dates.
- **Leverage early payment discounts**: Some vendors may offer early payment discounts if you pay your invoices before the due date. This can be a great way to reduce your expenses and improve your cash flow.

Our accounting firm that specializes in working with e-commerce owners can help you set up vendor payment terms properly.

We can provide you with guidance on negotiating payment terms, implementing a purchase order system, and tracking your accounts payable effectively.

Additionally, we can help you identify opportunities to leverage early payment discounts and improve your cash flow.

By setting up vendor payment terms effectively, with the help of our accounting firm, you can improve your cash flow and reduce the risk of cash flow problems caused by delayed payments or unexpected expenses.

MISTAKE #3

NOT SEPARATING BUSINESS AND PERSONAL FINANCES

MISTAKE #3 NOT SEPARATING BUSINESS AND PERSONAL FINANCES

One of the biggest mistakes that e-commerce owners can make is not separating their personal and business finances.

This can lead to a host of issues, including inaccurate financial reporting, tax problems, and cash flow challenges.

Here are some tips to help you separate your business and personal finances effectively:

- **Set up a separate business bank account**: Open a separate bank account for your business transactions. Use this account to deposit your business income, pay your business expenses, and manage your cash flow.
- **Use separate credit cards**: Use a separate credit card for your business expenses to avoid mixing personal expenses with business expenses. This can make it easier to track and manage your expenses and can help you maximize your business deductions at tax time.
- **Create a budget**: Create a budget for your business that separates your personal expenses from your business expenses. This can help you manage your cash flow more effectively and avoid overspending.
- **Keep accurate records**: Keep accurate records of all your business transactions, including income and expenses. This can help you avoid mistakes on your tax return and make it easier to manage your cash flow.

By separating your business and personal finances effectively, with the help of our accounting firm, you can improve your financial reporting accuracy, avoid tax problems, and manage your cash flow more effectively.

Additionally, our accounting firm can help you identify tax deductions and strategies that can save you money over the long-term.

MISTAKE #4

NOT PLANNING INVENTORY PURCHASES PROPERLY

MISTAKE #4 NOT PLANNING INVENTORY PURCHASES PROPERLY

One of the most common cash flow mistakes that e-commerce owners make is not planning their inventory purchases properly.

This mistake can lead to a wide range of problems, from overstocked warehouses to stockouts and lost sales.

Many e-commerce businesses operate on a just-in-time inventory system, where they purchase inventory as needed to fulfill customer orders.

While this system can work well in theory, it requires careful planning and forecasting to avoid running out of stock or tying up too much cash in inventory.

To avoid this mistake, it's important to develop a comprehensive inventory management strategy.

This strategy should take into account your sales data, lead times, order frequency, and other factors that impact your inventory levels.

By analyzing this data and using it to inform your purchasing decisions, you can avoid overbuying or under buying inventory and keep your cash flow healthy.

Here are a few tips for planning your inventory purchases properly:

- **Analyze your sales data**: Look at your sales history and identify trends in demand. This can help you predict how much inventory you'll need to purchase for each product or product category. Additionally, you should consider seasonal trends and promotions, and adjust your inventory accordingly.
- **Use an inventory management system**: Implement an inventory management system that can help you track your inventory levels in real-time. This system should allow you to set reorder points, generate automatic purchase orders, and provide visibility into your inventory levels across multiple sales channels.
- **Negotiate payment terms with your suppliers**: Negotiate payment terms with your suppliers that align with your inventory needs. For example, you might ask for extended payment terms during slow seasons to help manage your cash flow.
- **Use forecasting tools**: There are many forecasting tools available that can help you predict demand and plan your inventory purchases accordingly. Look for a tool that integrates with your e-commerce platform and provides real-time data.

- **Monitor your inventory turnover rate**: Your inventory turnover rate is a measure of how quickly you're selling your inventory. By monitoring this rate, you can identify slow-moving products and adjust your purchasing decisions accordingly.
- **Set up alerts for low inventory levels**: Many e-commerce platforms allow you to set up automatic alerts for low inventory levels. This can help you avoid stockouts and lost sales.

Our accounting firm specializes in working with e-commerce owners can help you plan your inventory purchases properly.

We can provide you with financial analysis tools to help you forecast your cash flow and inventory needs accurately.

Additionally, we can help you negotiate better payment terms with your suppliers and identify opportunities to reduce inventory costs.

By taking a proactive approach to inventory management, you can avoid the cash flow problems that often arise from poor planning.

MISTAKE
#5

NOT KNOWING HOW MUCH TO SPEND ON MARKETING AND ADS

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NOT KNOWING HOW MUCH TO SPEND ON MARKETING AND ADS

Online store owners should always keep in mind that marketing is crucial. Even if your products are great, people have to know about them first, and paid advertising is one of the most effective ways to reach out to new customers and boost sales.

If you're running paid advertising campaigns to expand your online store's sales or planning to start advertising, you may be wondering how much you should spend on ads.

The following tips apply to all ad campaigns for e-commerce businesses, regardless of whether you're running ads on Facebook, Google, YouTube, or another platform.

To determine your ad budget for your online store, there are three questions you need to ask yourself:

- How much does it cost you to acquire a new customer (Customer Acquisition Cost or CAC)?
- What is the long-term value of a customer to your business (Customer Lifetime Value or CLV)?
- How much can you afford to spend on ads to acquire a new customer?

Let's explore each question in more detail.

First, your CAC is the amount it costs to get a new customer, and it is calculated by dividing the total ad spend over a period by the total number of customers gained during that period.

For instance, suppose you spent $10,000 on advertising last month for your online store that sells beauty products, and you gained 1,000 new customers. In that case, your CAC for the month would be $10 per customer.

Second, your CLV is the amount of money you can pay for a customer and still break even over the long-term.

This is the amount your average customer will spend at your store over their lifetime as a customer. As long as your CLV is greater than your CAC, then you're making money with each new customer you acquire.

To determine your CLV, you need to calculate your average purchase value, purchase frequency, and customer lifespan. For example, if your customers spend $100 on average per purchase, shop 12 times a year, and shop with you for five years, then your CLV would be $6,000.

Finally, to determine how much you can afford to spend on each new customer, you need to know the payback period of your ad spend.

If your CLV is $6,000 and you have an average gross profit margin of 50% on your products, then each new customer will generate $3,000 in gross profit for you over the lifetime of that relationship.

If you're willing to spend 25% of your gross profit to acquire a new customer, spending $750 to acquire that customer seems reasonable.

However, it's important to consider how long it will take to recoup your ad spend. If it takes 7.5 months for the average customer to spend $750, it may take some time to get a positive ROI on your ad spend.

MISTAKE #6

NOT USING THE CORRECT PRICING STRATEGY TO MAXIMIZE PROFIT MARGINS ON YOUR PRODUCTS

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Pricing can make or break an e-commerce business. It's crucial to use the right pricing strategy to attract customers, maximize revenue, and stay competitive in the market.

As an e-commerce owner, you need to consider several factors when setting your prices, including the cost of goods sold, competition, market demand, and your target audience.

One pricing strategy you can consider is cost-plus pricing, where you add a markup to your cost of goods sold to determine your selling price.

This strategy can ensure that you cover your costs and make a profit, but it may not be the best approach if you want to stand out from your competition.

Another strategy is value-based pricing, where you set your prices based on the perceived value of your products or services to your customers.

This strategy can be effective if you have a unique value proposition that sets you apart from your competitors.

Dynamic pricing is another strategy that can be useful for e-commerce businesses. This strategy involves adjusting your prices based on market demand, competitor prices, and other factors in real-time. This can help you stay competitive and optimize revenue.

To determine the best pricing strategy for your e-commerce business, you should analyze your costs, competition, and target audience.

You may also consider testing different pricing strategies to see which one works best for your business.

In addition to conducting market research and analyzing costs, working with an accounting firm can be extremely helpful in determining the correct pricing strategy.

As financial experts, our accountants can assist you in understanding the financial impact of different pricing strategies and can help develop a pricing structure that maximizes profits while remaining competitive in the market.

As an experienced accounting firm, we can also provide valuable insights into industry trends and best practices, allowing e-commerce owners to make informed decisions when it comes to pricing their products or services.

By collaborating with us, e-commerce owners can ensure that their pricing strategy is both effective and sustainable in the long run.

MISTAKE #7

FAILING TO BUDGET AND FORECAST

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FAILING TO BUDGET AND FORECAST

Budgeting and forecasting are crucial components of any successful business strategy, but they are particularly important for e-commerce businesses.

Failing to budget and forecast can be a costly mistake for any e-commerce business. According to a study by U.S. Bank, 82% of businesses fail due to cash flow problems.

In fact, a recent study found that businesses that regularly forecast their cash flow had a 30% higher chance of surviving beyond the five-year mark than those that did not.

This is because budgeting and forecasting allow you to plan for the future, make informed decisions, and identify potential financial issues before they become a problem.

One of the biggest benefits of budgeting and forecasting is that it helps you to allocate resources more effectively.

By setting financial goals and tracking your progress towards them, you can make sure that you're spending money on the right things and not wasting valuable resources.

Another advantage is that it helps you to identify potential cash flow problems before they occur.

For example, if you know that you're likely to experience a dip in sales during a particular month, you can plan ahead and make adjustments to your budget to ensure that you have enough cash on hand to cover your expenses.

Budgeting involves creating a plan for how you will spend your money over a set period of time, typically a year. It's essential to have a realistic understanding of your cash flow and to know where your money is going.

This is particularly important for e-commerce businesses, which may have unique expenses such as inventory management, shipping costs, and website development.

Forecasting involves predicting future revenue and expenses based on historical data and industry trends. This information is critical for making informed business decisions and identifying potential challenges and opportunities.

For example, forecasting can help you determine when to launch a new product or marketing campaign, or when to cut costs in certain areas.

Failing to budget and forecast can lead to a host of issues, including cash flow problems, missed sales opportunities, and even bankruptcy.

Without a solid financial plan in place, it's easy to overspend or miss important opportunities.

Fortunately, there are many tools and resources available to help e-commerce businesses budget and forecast effectively. This includes accounting software, financial consultants, and other business advisors.

One of the main benefits of budgeting and forecasting is that it allows e-commerce owners to make more informed business decisions.

By having a clear understanding of your financial situation, you can plan for the future and make strategic investments in your business.

In addition to this, budgeting and forecasting can help you identify potential cash flow issues before they become major problems. This can enable you to take proactive steps to prevent these issues from occurring.

Another benefit of budgeting and forecasting is that it can help you set realistic goals for your business.

By analyzing past financial data and projecting future trends, you can set achievable targets and track your progress over time. This can help you stay motivated and focused on growing your business.

Moreover, budgeting and forecasting can also help you secure funding for your business.

If you're looking to raise capital or apply for a loan, having a well-crafted budget and forecast can demonstrate to lenders and investors that you have a solid understanding of your business's financials and are prepared for the future.

Working with our accounting can be particularly valuable to you when it comes to budgeting and forecasting.

Our experts can help you create accurate and realistic financial projections, identify potential risks and opportunities, and provide guidance on how to optimize your financial strategy.

CONCLUSION

In this ebook, we've discussed seven common cash flow mistakes that e-commerce owners often make and provided solutions to avoid them.

It's important to remember that e-commerce businesses face unique challenges when it comes to managing their finances.

By understanding these mistakes and implementing strategies to avoid them, e-commerce owners can improve their cash flow, make informed decisions, and ultimately increase their chances of long-term success.

Would you like to increase your e-commerce company's profits and cash flow while minimizing taxes and risk?

If you read this ebook and realized that you may be making one of the seven costly mistakes in your business, and you feel that your mistakes are beyond repair, don't lose hope...

We specialize in helping e-commerce owners overcome their mistakes and plan a better future for their business. We care about the e-commerce community and are here to help you.

I would like to offer you a free 30-minute consultation so see if we can implement the strategies in this guide into your business.

There is no obligation on your part, and I will not hold anything back...

By the end of our call, you will have a clear plan for what you need to do to turn your e-commerce company into a wealth-generating machine.

The best-case scenario is that I will help you save thousands of dollars and dozens of hours every year.

In the worst-case scenario, you will find out that you are not leaving any money on the table. Does that sound fair?

You can book your free Tax & Accounting Analysis session with me here:

LINK

On this call, I will analyze your tax strategy, business entity structure, and accounting system to ensure that you are maximizing your e-commerce company's profits and cash flow while minimizing taxes and risk.

Talk soon,
YAROSLAV TASHAK, CPA, MSA

ABOUT THE AUTHOR

YAROSLAV TASHAK, CPA, MSA

Hi there! My name is Yaroslav Tashak, and I'm an e-commerce CPA and tax strategist who helps self-employed e-commerce owners leverage their businesses to create lasting wealth.

I have seen firsthand how crucial financial management is for the success of an e-commerce business, and as an accounting firm, I am excited to provide valuable services that can help these businesses thrive.

As someone with experience working with e-commerce owners, it has been extremely rewarding to be able to help turn companies around, optimize performance and streamline the operations.

By using my financial expertise, I have assisted e-commerce owners in managing their finances, ensuring compliance with tax laws, and making informed decisions based on their financial data.

I'm excited to speak with you and help you get clarity on how to increase your e-commerce business profits and cash flow while minimizing taxes and risk.

If you feel like you might be paying too much in taxes, or if you feel like you're working too hard for not enough money...

On this call, we will review your current business structure, tax strategy, and accounting system to make sure that your e-commerce company is operating efficiently and that you're not wasting any of your hard-earned money.

This complimentary Tax & Accounting Analysis session has no obligation whatsoever, and I'll hold nothing back.

After discussing your business and goals, you'll have complete clarity and peace of mind about where you stand and where you're headed.

If you require my assistance in executing the plan we establish during our call, I'd be delighted to discuss working together. However, you don't have to become my client to derive significant value from our conversation.

If you want to take control of your financial future and keep more of your hard-earned money...

You can book your free Tax & Accounting Analysis session with me here:

LINK

I look forward to talking with you and helping you get clarity on how to create lasting wealth for you and your family

Talk soon,
YAROSLAV TASHAK, CPA, MSA