Notes on The 3 Rules

Rule 1 Cashflow is the net of all the money your company receives and pays out – **over a period of time**.

We recommend that you prepare a cashflow forecast each month for the coming month.

Rule 2 Margin is the net of your company's total sales minus the total direct costs of the products or services it sells – **over a period of time**.

For example, if your company sells T-shirts for $25 each and it costs $15 to buy each T-shirt, the margin on each T-shirt you sell is $10.

Operating costs are all the costs of operating your business that are not direct costs of the products or services it sells – **over a period of time**.

For example: salaries, rent, and advertising.

We recommend that you prepare margin and operating costs forecasts each month or quarter for the coming month or quarter.

Rule 3 Receivables, inventory, payables, and short-term debt – plus cash – are collectively known as Working Capital.

Your company's net Working Capital – which is (cash + receivables + inventory) minus (payables + short-term debt) – **on a specific date** – is a measure of its ability to pay its bills as they come due.

If its net Working Capital is consistently less than $0, this may be a cause for concern.

We recommend that you review your company's net Working Capital at least once a month.

And one more thing

++ To help your customers

++ To create customers who love you

++ To raise your company's margin