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 sold a T-shirt for $25, and it cost $15, the margin on that sale 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 called 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 your company's net Working Capital is consistently less than $0, you may have a reason to be concerned.

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

And one more thing: Create better products

- ++ To help your customers
- ++ To create customers that love you – and
- ++ To raise your company's margin