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## 4 TRIED AND TESTED WAYS TO BUILD A SAFETY NET FOR YOUR BUSINESS

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Staying on top of finances is one of the major responsibilities when running a business. This involves paying bills on time, investing money to grow the business, and maintaining liquidity to keep business operations smooth. Additionally, creating a safety net is integral to combat unforeseen circumstances. There are a couple of useful ways entrepreneurs can develop a safety net and in this article, by [Foxboro Consulting Group Inc.](#) we'll explore each one in detail and explore their benefits.

### **Build a Cash Reserve**

One of the best ways to prepare for unexpected expenses is to build up a cash reserve that can be tapped into as needed. Your aim will be to save enough money to cover

at least three months of business expenses, such as utility bills, contract obligations, and wages. Here are three ways to start your cash reserve:

- **Cut Back on Expenses:** Review your financial statements to [identify areas where costs can be reduced](#) without affecting profitability. This can include adopting a digital-first approach for sales, renegotiating supplier contracts, and leveraging the power of organic marketing.
- **Increase Your Cash:** If you have assets that are minimally used such as a company car, scanners, and other office equipment, sell them to increase your cash reserve.

## **Obtain a Good Line of Credit**

As an entrepreneur, you will not always be able to use cash to pay for expenses, especially when it is a large amount. In this scenario, instead of draining all your cash, it's better to use a line of credit i.e. a short-term borrowing from the bank. Unlike a loan where the amount and repayment are fixed, a line of credit is a pre-approved limit up to which you can borrow at any time. Once the amount is repaid, the limit is reset.

[While most banks offer](#) a line of credit without collateral, businesses needing large sums of money can be asked to provide collateral, as reported by Lending Tree. The key to maintaining access to a line of credit is having good relations with the lender, keeping your books organized, and consistently repaying on time.

## **Invest in Insurance**

Insurance is often viewed as a cost by small business owners, but in the long term, it is a great tool to build and maintain a healthy cash reserve. In the event of a lawsuit or damage to the business due to theft, bad actors, etc, the cost of recovery can create a heavy burden on finances. In extreme cases, businesses need to shut down as the cost of recovery is too much to bear.

Here are some common types of insurance [entrepreneurs should consider purchasing](#) to keep finances secured:

- **General Liability Insurance:** This type of insurance will protect your business from claims related to injury or bodily harm caused in-store or owing to the use of your products, as reported by Small Business Coach. Whether you sell a product or service, this type of insurance will [serve as a lifesaver during lawsuits](#).
- **Home Warranty Policy:** Along with business finances, entrepreneurs need to protect their personal finances as well, especially when running a home-based business. Hence, purchasing a home warranty should be a priority as it covers the cost of repair and replacement of faulty equipment such as your laptop, HVAC system, and more. Before purchasing a policy, conduct thorough research for [the best choice for a home warranty company](#).

## **Keep Finances Organized**

Creating a healthy cash reserve is impossible without keeping your finances organized. If you do not use accounting software, now is the [right time to implement one](#). With accounting software, you'll be able to create financial statements on demand and stay on top of business expenditures.

Additionally, use [a PDF converter](#) to convert all files into PDF format as it is universally accepted by all software. Moreover, it provides the functionality of protecting data through encryption and password security.

By building a cash reserve, and securing a line of credit your business will never have to face the problem of being short of cash. Additionally, through purchasing insurance/home warranty and digitizing your records into PDF, your finances will always be protected and ensure the long-term success of the business.

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