



How to Build and Use an Emergency Fund for Your Business

Take the following steps to prepare your business for uncertainty by building an emergency fund that will help your company survive the unexpected.

PLAN AND BUILD YOUR EMERGENCY FUND	
✓	Identify essential expenses
	Review the past 12 months of cash flow reports (or 12 months of cash flow projections, if your business is new) to identify essential expenses you must pay even if your business stops bringing in income. This may include:
	<ul style="list-style-type: none">• Rent or mortgage
	<ul style="list-style-type: none">• Utilities
	<ul style="list-style-type: none">• Business insurance
	<ul style="list-style-type: none">• Payroll and benefits
	<ul style="list-style-type: none">• Taxes
	<ul style="list-style-type: none">• Loan payments
	<ul style="list-style-type: none">• Other
✓	Consider other financial resources
	Add up any personal income sources that could help you survive without a salary.
	<ul style="list-style-type: none">• Spouse's income
	<ul style="list-style-type: none">• Personal savings
	<ul style="list-style-type: none">• Retirement fund
	<ul style="list-style-type: none">• Other
	Brainstorm worst-case scenarios that could affect your personal income.
	<ul style="list-style-type: none">• Your spouse is laid off
	<ul style="list-style-type: none">• Spouse's salary is reduced
	<ul style="list-style-type: none">• Other
✓	Determine how much you need
	Average out your business's monthly essential expenses.
	Multiply that by how many months' worth of reserve you need. (Three to six months is a good average, but you may need more if your business is seasonal, your industry is volatile or your personal resources are limited.)
	SCORE's free online course Preparing a Cash Budget can help you determine your cash reserve requirements.
	Use SCORE's Financial Projections Template to explore how different scenarios may pan out.
✓	Start saving
	Choose a bank account that's accessible in an emergency, but not so accessible you're tempted to spend the money.
	Put 10% to 30% of business profits into the emergency fund each month.
	Automate deposits to ensure you continue to save.

✓	Consider options for growing your emergency fund
	If margins are already tight, think about ways to bring in more money such as:
	<ul style="list-style-type: none"> • Raising prices
	<ul style="list-style-type: none"> • Requiring upfront payments or deposits from clients
	<ul style="list-style-type: none"> • Better managing accounts receivable to speed up collections
	<ul style="list-style-type: none"> • Putting any windfalls, such as tax refunds, into your emergency fund
	<ul style="list-style-type: none"> • Other
	Brainstorm ways to reduce expenses such as:
	<ul style="list-style-type: none"> • Cutting nonessential spending such as subscriptions, business travel, memberships or discretionary equipment purchases
	<ul style="list-style-type: none"> • Negotiating lower prices with suppliers
	<ul style="list-style-type: none"> • Shopping around for business services to lower your costs
	<ul style="list-style-type: none"> • Renegotiating with suppliers for lower prices
	<ul style="list-style-type: none"> • Moving to a less expensive location or subletting part of your facility
	<ul style="list-style-type: none"> • Other
	Investigate other sources of emergency financing, such as business loans.
	Consider applying for a business line of credit to use in an emergency.
PLAN HOW AND WHEN TO USE YOUR EMERGENCY FUND	
	Emergency funds should be tapped only when it is a matter of business survival, not to take advantage of opportunities or make up for a slow sales month.
✓	Define what qualifies as an emergency. This may include:
	<ul style="list-style-type: none"> • A lengthy illness of the owner or other key employee
	<ul style="list-style-type: none"> • A natural disaster
	<ul style="list-style-type: none"> • Social unrest
	<ul style="list-style-type: none"> • A lawsuit
	<ul style="list-style-type: none"> • Other
✓	Take these steps before using your emergency fund:
	<ul style="list-style-type: none"> • Eliminate nonessential spending
	<ul style="list-style-type: none"> • Contact creditors to renegotiate existing debt
	<ul style="list-style-type: none"> • Contact suppliers and vendors to negotiate better prices and terms
	<ul style="list-style-type: none"> • Investigate state, federal and local government assistance and relief programs you may qualify for
	<ul style="list-style-type: none"> • Consider reducing employee hours, reducing wages or laying off employees
	<ul style="list-style-type: none"> • Consider downsizing your location or going virtual and working from home
	<ul style="list-style-type: none"> • Other
	A SCORE Mentor can help you plan for building and using an emergency fund.
Notes:	