

The Monthly Resource Guide For Startup Businesses

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The Power of Cash Flow

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Learning to manage your cash flow will get you paid faster, reduce your risk, bolster your bottom line, help you pay your bills on time and build a solid business. To help you plug into the power of cash flow, we offer these experts: **Jeff Prager**, Backroom Management Services (Monitoring); **Kevin Thompson**, Wells Fargo (Banking Services); **Maurice Washington**, Executive Merchant Services LLC (Merchant Services) and **Mike Downs**, CPA (QuickBooks).

The Power of Cash Flow



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From the Publisher: For many new businesses, their first experience with cash flow is negative. Invoices have been sent out and payments are....trickling in....not showing up....going to collections. Cash flow is something that you can manage and control. It doesn't have to be some surging river whose swift current has you in its grip.

When you take control, you can benefit from the Power of Cash Flow. You'll get paid quicker and more often. You can pay your vendors on time and build a solid credit reputation. You can better plan for your future and build a better business.

New Business Denver approached the experts on these pages to share their advice on what every new business needs to know about the Power of Cash Flow.

The authors will share more information in a free interactive workshop in February. For more information and to RSVP go to www.brandnewstartups.com.

Future Profits Don't Pay Today's Costs

You Can Learn a Lot from the Production Cycle Approach to Healthy Cash Flow.



By Jeff Prager
Special to New Business Denver

Picture this: your phones are ringing, your orders are piling up, your people are working at full capacity, and your P&L shows a nice, healthy profit. Good times, right?

Except there's a problem: you don't have enough cash to cover payroll.

Which means it's all going to come grinding to a halt.

There's no better illustration of the profit illusion than that. You see, profit is a theoretical number, because it includes the value of your accounts receivable. And when's the last time you went to the store and spent an accounts receivable?

Cash flow is critical to maintain your operations, but it's even more important for growing your business. You need capital to invest in the resources that will make the future checks come in.

Many business owners already know this. And so, to improve their cash flow situation, they look to trim their costs. But while efficiency and productivity are indeed important, they can't solve cash crunches on their own. For this, you need to focus on your complete business funnel.

Start with Your Production Cycle: Balance Incomes and Outflows

We teach our clients to solve cash flow issues by inventorying their production cycle and comparing the points where money goes out to the points where money comes in.

To do this, you begin by breaking your

production cycle into six activity hubs:

1. Acquiring the lead.
2. Transforming lead into client.
3. Completing the sale.
4. Executing the offering.
5. Delivery/distribution.
6. Follow-up.

Every business is different, but there are very few production cycles that don't fit this format.

The next step is go through each activity hub and identify your expenditures of time, energy, and money (as a business owner, you should be accounting for all three!). This ranges from time spent writing proposals to money spent buying raw materials or paying for hourly labor.

This will tell you how much you spend during each of the six activity hubs.

Once you know where your cash is flowing out, write down where your cash is flowing in. Again, every business is different, but we generally see something like this:

	Expenditure	Revenue
Acquiring the lead	5%	0%
Transforming lead into client	5%	0%
Completing the sale	5%	50%
Executing the offering	60%	0%
Delivery/distribution	15%	0%
Follow-up	10%	50%

See the problem here? By the end of the job, you've incurred 90 percent of your costs, but only 50 percent of your revenue. And you probably have to wait another 30 or 60 days beyond the completion of your follow-up activities to receive that last check.

If your table shows a similar pattern, then your revenue cycle is not strategically aligned with your production cycle.

To fix this problem, you should create multiple payment milestones earlier in your production cycle. That's because, as a general rule, your cash flow is much healthier when you expect many small payments from your clients instead of a few big ones.

And if your client pushes back on that structure, that could be another red flag. Because that might be the kind of client who will sit on your final check for months after the job is complete.

Focus on Your Complete Business Funnel

As you structure your revenues to *anticipate* costs instead of trailing them, you'll notice something else happening: your relationship with your clients will change.

As it stands now, you provide a product or service, and then they give you money.

We want you to change it so that you provide a product or service *after* they give you money.

But you need to be aware that such a change impacts your complete business funnel, from whom you target to how you provide customer service.

In other words, while you should view cash flow as a cost issue that can be solved by increasing efficiency, you should also see that it's a pricing and collection issue that's solved by building payment milestones.

And it's also a marketing issue that's solved by qualifying your leads for their

ability to pay on time. And it's also a sales issue that's solved by getting more leads in your pipeline.

Cash flow considerations should cascade across every aspect of your business. Because when cash flow dries up, it doesn't matter how often your phone is ringing and how many orders are piling up—every aspect of your business suffers.

Jeff Prager is the CEO of Backroom Management, a Denver-based firm that helps business owners simplify management and monitor cash flow by focusing on just 7 Key Numbers. Jeff's been a CPA, CFO, and business owner for forty years, including owning one of Colorado's largest home builders. You can work with him to identify your own 7 Key Numbers by calling:

*(303) 221-0823,
build@BackroomManagement.com
BackroomManagement.com.*

Accelerate Cash Flow with Merchant Services

Accepting Credit and Debit Cards Helps You Keep Control.



By Maurice Washington
Special to New Business Denver

Often new businesses think they're too new or too small to take credit cards. In today's marketplace, as soon as you have a customer, you'll be asked: Do you take credit cards?

Chances are that will happen sooner than you expected. As you launch, remember that your needs will change quickly during your first years. You should have a good overall view of what is possible with pricing and technology so you'll know how to respond as you grow.

You'll be surprised at the variety of credit card processing options available: online, wireless, counter top machines, computer-based terminals, otherwise known as virtual terminals. And those are just the options for processing transactions. It gets even more complex when it comes to processing fee options.

How a business gets paid has changed a lot in the past five years or so. Back then people often carried checks and cash wherever they went. Credit card processing wasn't a necessity.

Accelerating Cash Flow

Today businesses of all kinds are much more open to accepting credit cards. Not only is it convenient for your customers, but it will speed up your cash flow. It's money in the bank and usually within 48 hours.

Getting access to those funds sooner enables you to buy materials on a schedule, pay your bills on time, and avoid bounced checks and bad debt in general.

One business owner, who came to me for help, said he was tired of working with check payments. He was always waiting for the mail or had issues with the bank holding funds longer until the checks cleared.

He especially disliked having to discuss check problems with clients to find out when the check was sent and then trying to track down where it was and what happened. That's not how he wanted to relate to customers. His time was better spent finding new customers.

Because of the nature of his business – it was social media company – my solution for him was to stop accepting checks and go credit card or cash only. And start using recurring billing.

To his surprise, he didn't lose business because he stopped accepting checks. And he actually saved time for clients and himself. People don't realize that once a client writes a check, they're waiting for the check to clear as well. They have to track it, too. Some business owners sit on checks and don't process them right away, which means more tracking.

Options

A wide range of businesses now use merchant services. You have the traditional retail locations or point-of-sale users, some who work out of their homes, some who use it for their web sites and some who use wireless processing that use out of their cars, at job sites or wherever they interact with their clients.

The big and cumbersome wireless machines of six years ago have given way to wireless processors the size of cell phones. There is even an attachment for the Iphone and BlackBerry so you can swipe cards. They'll even do signature captures so you can get the best rates.

Know Your Options

Getting educated about merchant services is important. I strongly urge you to work with a reliable merchant services provider who can explain all the options. It's all too common to come across business owners who don't understand what rate they are paying, how to read their bill or have no idea about the functionality of the service. That should never happen.

The first thing I do with a new client is to look closely at their business model. What will make their job easier? What repetitive tasks can be eliminated? What is their monthly revenue? What option will be most cost effective for them? How will it impact their overall cash flow?

Virtual terminals might be a good fit for low volume businesses that only need to process

small batches of transactions or if they take orders over the phone.

Then there is the wireless option, which works great for locksmiths, towing companies, landscapers, plumbers, window cleaners or nearly any service providers. If they can swipe a card, it's all done. They don't have to go back to office to run the card to find out if the card is good.

Now that nearly every business has a web site, they may have the opportunity to develop another revenue stream by accepting payment on line with a shopping cart feature.

Customer Expectations

Yet another reason to consider merchant services is that people have a growing expectation that they can pay with a card. In fact, you should be aware that there is a generational change taking place in how people want to pay for things.

Baby boomers tend to rely on checks and cash. That's how it was done and that's their preference.

But if you're marketing to Gen X and Ys and Millennials; they barely know anything about checks. They've always used debit and credit cards. Remember, most of them have never had a land line phone and their preferred means of communication is texting.

Merchant services will help you interact with a new generation, a growing market that is all about quick, convenient and effective.

Conclusion

When you take credit cards, you establish credibility. Customers know you're committed and had to go through a process to qualify. You're solid. There is an almost automatic trust that consumers associate with businesses that take credit cards. As small- and medium-sized business, you can now offer the same thing as the big guys.

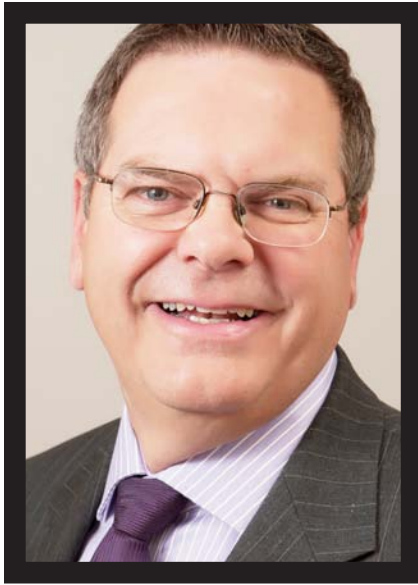
Remember, success in business isn't only how much money you make, but how effective you are in your business.

Maurice Washington is president of Executive Merchant Services LLC, serving small to medium sized businesses with a range of merchant service product to effectively manage credit card processing. He can be reached at: (720) 366-7964

*Maurice@executivemerchantservices.net.
www.executivemerchantservices.net.*

Cash Flow Is the Air Your Business Breathes. Protect It.

These Cash Flow Management Tips Will Help Keep Your Business Healthy



By Mike Downs, CPA
New Business Denver

Cash flow is the air supply a business needs to survive and prosper. Let's say on average you take a breath every four seconds. That doesn't mean you can take a bunch of breaths now and then not breathe at all for 10 minutes, because you probably won't be around afterwards. (Please don't try this at home.)

Unfortunately, the primary reason for many small business failures is a lack of cash flow. Death by suffocation is what an accounting coroner would rule.

To better understand the concept of cash flow, keep in mind that it's not the same as profit. Sales revenue today may not appear in your bank account for weeks, and a \$100 depreciation expense on your profit and loss (P&L) didn't require you to take out your wallet and give money to anyone.

Effective cash flow management focuses not only on the amount of cash coming in and out of your business, but on the all-important *when*. As a QuickBooks ProAdvisor, I know QuickBooks accounting software can help. Whether Windows or Mac, Pro or Premier, desktop, online or in the cloud, QuickBooks has powerful features that can help small businesses breathe easier when managing cash flow.

Top Cash Flow Management Tips

Keep your QuickBooks file up to date.

That is how timely management information is conveyed to you as a business owner and decision maker. If your business motto today is "We might be lost but we're making great time," this area probably needs attention.

Financial statements created in March for the prior year may be critical for preparing an accurate tax return, but are of little value in making real-time decisions.

Remember, the information in QuickBooks is just a figment of your imagination unless you link it to the real world, and you do that by reconciling bank, credit card and loan accounts to their statements monthly. The new online banking features in recent QuickBooks versions streamline what used to be a tedious reconciliation process.

Track languishing receivables. Oh, if every sale were cash across the counter, what a breath of fresh air...and a rarity for many businesses. A product or service is provided now and payment is due later. Meanwhile, materials are purchased, employees have paydays, and your office rent is looming.

Getting lightheaded? Stay on top of money owed to you. QuickBooks allows you to set payment terms for each customer and easily generates an aging summary that allows you to see at a glance who owes you and how long payment has been overdue.

You can assess finance charges as well as create and edit preformatted collection letters. Using QuickBooks item-driven invoicing, require deposits and progress payments for large projects, and develop a clear policy on payment expectations.

Make it simple for your customers to pay you. If you think "simple" is mailing a bill that they put in a pile, eventually write a check and put in a mailbox, you're probably over 40.

Strike while the iron is hot and go paperless. Through QuickBooks email a bill with an option to pay on the spot with a credit card or eCheck.

If you are in field service work, accept credit card payment via your cell phone. For recurring customers set up automatic withdrawal payments whenever possible.

The latest QuickBooks edition has a batch invoicing feature where the same bill is prepared once and sent to numerous customers,

such as health club memberships, newsletter subscribers or homeowners association.

Monitor those payables. QuickBooks allows you to set up payment terms for each vendor you pay, automatically take advantage of discounts, track due dates and schedule recurring transactions. All with a goal of allowing you to optimize your cash disbursements without incurring late fees and finance charges.

Treat taxes as rarified air. Your business may have cash that doesn't belong to you, such as sales taxes paid by customers or federal and state withholding from employee paychecks.

Your business is just a pass-through activity for tax collection. Taxing authorities can demand your attention with hefty penalties and more. Properly set up and used, QuickBooks continuously tracks these tax liabilities and subsequent payments.

Breeze to the future. You account for yesterday and budget for tomorrow, and the cash flow reports in QuickBooks allow you to do both. The statement of cash flows shows you where cash came from and went to for any past period and can provide valuable and sometimes painful insights.

Looking forward, the cash flow forecast projects future cash balances based on customer and vendor payment terms you set up, which lets you to see an impending cash shortfall ahead of time and adjust accordingly.

Conclusion

Instead of gasping for oxygen, let QuickBooks help your business plan for upcoming cash needs, spot a potential trouble spot ahead, and put extra cash to work for you. All of which gives you more time to focus on the business you are passionate about and take time to enjoy our clean Colorado mountain air.

Mike Downs has been a Colorado licensed CPA for 12 years and owns his own practice in the Wash Park area. He specializes in working with individuals and small businesses and is an Advanced QuickBooks Certified ProAdvisor. Mike is a retired Navy officer and offers a full range of tax and accounting services for the new and small businesses. He can be reached at: (303)400-4392

*mike@mikedownscpa.com
www.mikedownscpa.com.*

Manage Cash, Manage Growth for a Successful Small Business

Time-Honored Management Tips To Keep Your Cash Flow Flowing.



By Kevin Thompson
Special to New Business Denver

Whether the economy is up or down, cash is the lifeblood of every business. No matter the size, all companies recognize that managing cash is essential to managing growth and achieving success. Here are time-honored tips that could assist you:

Plan to maximize cash flow. Make sure you have a business plan that gives you a thorough understanding of your company's financial situation. Use the plan to develop a cash flow forecast, which allows you to plan for cash needs, spot possible cash shortfalls and put extra cash to work earning interest and dividends. Take advantage of programs offered at local universities and economic development agencies to help you develop these skills.

Don't shortchange cash flow forecasts. Do you know how much cash your business has now? How much will it have in six months? Familiarity with key concepts of cash flow can help you answer these questions. It's important to know the difference between *cash* and *profits* and between *working cash* and *working capital*. Another important difference: *cash* and *accounts receivable*.

Even if your business is projected to make a *profit* this year, you need to make sure there's enough *cash* for paying day-to-day

expenses. Companies need *working cash* to meet ongoing obligations such as rent, payroll, supplies and energy bills. Working cash must be in hand not cash you will receive whenever accounts receivable start rolling in. *Working capital* is used for fixed assets such as equipment, buildings and other depreciable expenses.

A cash budget can help you calculate how much cash you need to keep your company running smoothly and have the money you need to meet obligations at specific times. With a realistic cash budget, you're better able to avoid surprises and build a solid foundation to grow your business.

Closely track receivables. The more efficient you are at billing and collections, the better your cash flow. Making sure customers pay on time is essential. One way to improve your receivables process is to offer incentives to customers who pay for part of their order up front. Or, consider requiring payment by credit card for all invoices under \$2,500 so you receive immediate payment. Let new customers know that you're serious about collections. Establish your credit policy and inform customers what it entails, including steps you take to collect on delinquent accounts.

No matter what measures, late payments do happen. Along with a good credit policy, you need solid procedures for collecting overdue bills, including determining whether to retain a collection agency.

Do your homework. Grow your business with customers who can pay their way. With their permission, you can run credit checks on new customers or use check verification services to run instant credit checks. Dun & Bradstreet and other reporting agencies can provide credit checks on prospective customers. Many business owners use detailed credit applications and carefully check references.

Consider giving sales staff an incentive to call on quality accounts by tying commissions to customer payments, not to orders.

Stay on top of payables. Good cash management means effectively managing payables. Use the full time period that vendors provide you to pay bills – without incurring late fees and interest charges – before sending in your payments.

By developing solid working relationships, your vendors are more likely to work with

you to reschedule payments or grant more lenient credit terms if you ever face a challenge making payments.

Manage surplus cash. Knowing there's more cash on hand than you need for near-term expenses can be a great feeling. Resist the temptation to spend it. Also, contain the urge to be debt-free by paying ahead on non-revolving obligations – this may leave your company cash-strapped in the next cycle.

Instead, put your cash to work to generate more income through credit lines for short-term needs and accessing interest-free credit by moving appropriate expenses to business credit cards and paying the full amount on scheduled dates with no interest expense.

Leverage credit. In the current environment, it may make sense to leverage credit instead of using up your cash reserves to purchase equipment, supplies or to expand your business. Applying for credit when cash reserves are high may help to build the credit history of your business. Equipment finance loans, business credit cards or business lines of credit may all be sources of funding for purchases you are thinking about now that you have cash on hand.

Build solid relationships with professionals. Early on, find a good accountant, a good lawyer and a good banker. They can help you set up the financial system and legal structure you'll need later when business takes off. Develop a solid relationship with each, communicating regularly about your business.

Take time to meet regularly with your banker to review products, services and fees, to share information about any changes in your business and to discuss opportunities to save your business money and enhance cash flow. Your focus on good cash management will help your small business grow and succeed.

Kevin Thompson is a Vice President in the Professional Services Group/ Business Banking with Wells Fargo in Denver. He has more than 25 years experience working with small business clients. He can be reached at:

(303) 863-6189

Kevin.Thompson@wellsfargo.com.