

The Monthly Resource Guide For Startup Businesses

# NEW BUSINESS

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## Shields Up! Protect Your Business

## Special Report

You've Worked Hard to Launch Your Business. Have You Taken Steps to Protect What You've Built? These Experts Offer Their Solutions: **Dawn Bijou Janes**, Minnesota Insurance Group; **Matt Larson**, Larson Records Management; **John Brown**, Creditor Advocates; and **Aaron Barr**, CreditTek Inc. Page 4.

# Shields Up! Protect Your Business



You've Worked Hard to Launch Your Business. Have You Taken Steps to Protect What You've Built? Here Are Some Valuable Insights into How You Can Guard Your Investment.

*From the Publisher: Most new businesses take care of the obvious when they launch. They've got a banker, attorney, CPA etc. But they often forget to take steps to protect their business from the unexpected dangers lurking around the corner.*

*To examine this topic for our readers, New Business Minnesota approached this team of experts to write about the latest trends and strategies: Dawn Bijou Janes, Minnesota Insurance Group; Matt Larson, Larson Records Management; John Brown, Creditor Advocates; and Aaron Barr, CreditTek Inc. They will share more information in a free interactive workshop from 3 to 5 p.m. on Feb. 16 at the Doubletree by Hilton Minneapolis-Park Place in Golden Valley. Startupmeetup Networking follows from 5 to 7 p.m.*

# Your Revenue Stream Needs Protection, Too

## A Sale is Not a Sale Until You Get Paid.

By **John Brown**

Creditor Advocates Inc.

*Special to New Business Minnesota*

**M**any new business owners are so eager to build their business and start racking up sales that they forget the first rule of business: make sure you get paid.

I can't tell you how many times businesses come to us at Creditor Advocates to seek help collecting past due accounts. These may be the same accounts they celebrated with champagne when they secured the sale a few months earlier. Now they are suffering from seller's remorse, a financial condition featuring deep regret that comes from forgetting that first rule of business - make sure you get paid.

This happens in just about every business at one time or another. The accounts receivable (AR) are on auto pilot. All seems well. Then one bad debt pops up, then another, followed by a really big one. It doesn't take long, especially when you're a new business, to find yourself in a world of hurt.

The key to protecting your hard-earned revenue is to make sure you have a solid approach to managing your AR. You need a system that minimizes your risk and makes it easier to recover a bad debt.

When I first counsel a new client, I recommend they ask themselves a few basic questions to identify their vulnerabilities:

- Do I accept checks or credit cards for payment?
- Do I extend credit to my customers by offering payment terms like 30, 60 or 90 days?
- Do my customers pay after they have received the product or service?
- Do I rent or lease to my customers?
- Do I work with my customer's insurance company for reimbursement?

If the answer to any of the questions is YES, it may be time to consider adopting a few of the following strategies to protect your business.

### Five Simple Ways to Protect Your Accounts Receivables

**1) Take immediate action on bad checks.** Depending on your business, you might consider using a service to reprocess bad checks as soon as they arrive. You must inform the consumer at the point of sale that this is how you will be handling bad checks.

Your bank may offer an option that forwards a bad check directly to a check processing service for immediate action. The check processing service typically has 60 days to recover the money by reprocessing the check. Creditor Advocates provides this service at no cost to the client. We return the face value of the check to clients and retain the check-return fee. If it is not recovered, then the matter follows the traditional collections route.

**2) Your terms and conditions should be**



**clearly stated** in all your contracts, financial agreements, quotes, receipts or other documents referencing your relationship. Part of protecting your business is being clear and upfront with customers about what is expected from the beginning, not after a problem arises.

Here is a quick checklist of things you can do that will greatly improve your AR process, make collections easier and, if necessary, give you a winning hand going into court:

- The responsible parties should be clearly defined.
- Outline any additional charges, interest, and fees. Be aware that Minnesota restricts the interest rate to 8 percent APR on simple written contracts or 1.5 percent per month for revolving credit accounts. If you choose to go with the 1.5 percent per month charge, consult your attorney for proper verbiage and requirements to set up open lines of credit. Include check fees, processing fees, statement fees, etc.
- Clearly state your collection activity fees and additional charges should the account remain unpaid. If you choose to add a collection fee, it must be agreed to by the consumer in writing on non-revolving credit accounts.
- Clearly identify the party responsible for payment when minors and/or other dependants are involved. An individual may receive the services, but the responsibility to pay the bill may lie somewhere else. This responsibility remains even after the minor turns 18.
- Avoid consumer communication issues. The laws are ever changing. I strongly recommend that you include language in your agreements, terms, etc. that indicates you may contact them by phone, cell phone, text, SMS or email and that could include automated messaging systems and/or automatic dialing devices.
- Have a strong FINAL NOTICE message. Put

a red sticker on the bill stating "Final Notice" to get their attention before sending it off to the collection agency. You want them to take your efforts seriously, so send only one "Final Notice" invoice.

**3) Practice gathering fresh information.** Information provided by the responsible party is critical during the collection cycle. If they refuse to provide contact information, or if the information is inconsistent, it is usually an indicator that the account will go to collections. Below is an example involving patient care that details the information to be collected **before** a patient is accepted:

- Name, local address and phone number.
- Responsible party's Social Security number and date of birth.
- Employer, occupation, and work phone.
- Name of bank used to process payments.
- Spouse's name and phone number.
- Emergency contact and phone number.

Customize the information you seek to fit your business' needs. Talk to a collections expert to identify other critical information to acquire.

**4) Make specific payment plans.** If you set up a payment plan, obtain credit/debit card or ACH information to process the transactions on the certain day of the month. It needs to be concrete and specific so that they know they are making a commitment. If there is room to wiggle, people will wiggle.

Keep in mind that many of the slow and no pays you encounter involve people who want to pay, but who are struggling. I've learned over the years that our task is to help them find a way to pay. That's where being flexible and creative can open the door to resolving the problem.

The bottom line to protecting your business Accounts Receivable is to have a plan. Not only to avoid AR problems up front, but effectively deal with accounts that may go sour.

**5) Use a letter or pre-collect service** as a low-cost alternative to traditional collections. This service will simply send a series of letters before being referred for traditional collections. Services that work on a contingency basis offer the best value. Creditor Advocates provides this service for accounts less than 60 days old. If the account is not recovered, then the matter follows the traditional collections route.

**NBM**

*John Brown is Senior Vice President of Operations for Creditor Advocates Inc., a full service Accounts Receivable Management and check processing company that serves small and medium sized businesses. He can be reached at (952) 657-5930 or johnbrown@creditoradvocates.com. For more information go to www.creditoradvocates.com and use promo code NB11JB.*

# Document Imaging Preserves Mission Critical Information

## Make it Part of Your Disaster Recovery Plan.

By Matt Larson

Larsen Records Management

*Special to New Business Minnesota*

Things are great! Your business is thriving just as planned. You have new accounts coming in. The receivables are in great shape. Then BOOM! A fire destroys your facility and you lose all the paper work, physical signed contracts and more.

No one likes to believe this could happen to them. Disaster is never expected. In the blink of an eye, your world is upside down and you don't even know how to start the recovery process.

The U.S. Department of Labor estimates over 40 percent of businesses never reopen following a disaster. Of the remaining companies, at least 25 percent will close within two years. More than 60 percent of businesses confronted by a major disaster close within two years, according to the Association of Records Managers and Administrators.

A disaster can be one of many things. It could be a fire that destroys your office, an electrical surge that takes out your server or a broken or frozen water pipe that floods your office. It can be a disgruntled employee that deletes files and documents on your network. It could be a tornado or flood.

How do you protect yourself from a disaster? How do you recover all of the information you need to get your business up and running again?

For arguments sake, let's say you have been backing up your computer system and are able to recreate all of your electronic data. That alone could take days. Still, you're just past the half way mark to being 100 percent recovery.

But what about the physical documents like leases, signed contracts with clients and vendors, employee files and so on that were in the files that were destroyed by the fire? How do you go about getting those back?

### Digital Imaging

The only way to protect your physical documents is to have them imaged before anything has a chance to happen.

What this does is gives you another copy of the documents you rely on to run your business.



Do you remember how much time an employee has taken off this year? How many sick days they had? How about the specific terms that were set forth in an important contract with that new client?

With document imaging, you get an exact replica of the original paper documents that are accessible on any computer. Once the original documents are imaged, they can be kept on a portable hard drive in your office, backed up off site in the event of a disaster or even housed in an online off-site repository for retrieval from any computer.

One of our clients relies on us to image over 2,000 employee files. Other than the actual paper files they had, there were no copies of annual reviews, disciplinary write ups, signed confidentiality agreements and so on. They wanted to have a back up for the originals just in case.

### Disaster Recovery Plan

Protecting your business should be a priority. Document imaging is just one of the solutions that should really be part of a well-thought-out Disaster Recovery Plan.

A good plan should cover in great detail the steps and processes necessary to get up and run-

ning as quickly as possible. It should include your strategy for which documents are digitized, which ones are stored off site, where electronic backups are kept and how to access it all. Keep it in a safe place that you and key employees can get to quickly.

### Back Up

It should go without saying, but you can never say it too much: "Always back up your electronic data."

There are online services such as Carbonite, Barracuda and Mozy to name a few. Although they back up your data, the restoring part can be tricky and slower than you might want.

A better solution if recovery time is critical is to use an actual IT company to back up your data on-line. They will be there to help with a restore when the time comes. You can also back up your data to a portable hard drive or magnetic media and have it sent off-site on a daily or weekly basis. This helps protect the integrity of your data and helps with a network restore.

When you use an IT company for these services you also have a partner in obtaining a replacement server or computers should they be required. Online services can't help you with this.

### Conclusion

We all know what to put in our car trunks as winter approaches in Minnesota. Once you're in a ditch at 20 below zero, the blanket, candles and candy bars had better be available. It's the same way you plan for a business disaster. Put your Disaster Recovery Plan in place before you need it.

NBM

*Matt Larson is the General Manager at Larson Records Management, a local family owned and operated full-service off-site records management company serving all of Minnesota and western Wisconsin. In addition to providing document storage, transportation and imaging, the company also offers document destruction, disaster recovery consulting and records program consulting. He can be reached at (651) 636-4156 or [mattlarson@larsonrecords.com](mailto:mattlarson@larsonrecords.com). [www.larsonrecords.com](http://www.larsonrecords.com).*

PDF Copies of this Special Report Are Available at

[www.newbizminn.com](http://www.newbizminn.com)

The workshop on Feb. 16 will be video recorded and available on line at the New Business Minnesota web site.

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# Protect Your Credit to Protect Your Business

Work With a Credit Pro to Maximize Your All Important Credit Score.

By Aaron Barr  
CreditTek Inc.

*Special to New Business Minnesota*

Most businesses are concerned about their appearance. They make sure they have professionally designed logos, web sites, brochures and business cards. They dress up for important meetings or when meeting with clients. Unfortunately, they overlook how their credit score makes them appear.

Like it or not, your credit score has a major impact on you personally and on your business. It is how you are being judged by just about anyone who is checking you out.

Services that use risk-based pricing all rely on your credit score in setting your rates. A low score means you'll pay a higher interest rate for a loan or you may pay more on insurance for your car, home and life. It can even affect the pricing of service providers like cell phones, satellite TV services etc. If your score is rough enough, you'll get refused or you might not qualify for the best deals. And when you go into business, your business banker will pull your personal credit.

The average cost of poor credit in the U.S. is about \$4,000 a year.

A prospective employer might even lose interest in hiring you if your score sends the wrong message.

## Understanding Credit Scoring

Most people I've worked with on protecting and recovering their credit score, don't have a good understanding about their current score or how they got it.

They do a lot of assuming and most of the time they're wrong.

If they are debt free and have no credit cards, they'll assume they have a high score. What they don't understand is that the score is a reflection of how they handle credit. Zero activity provides zero insight into how you'll behave in repaying a debt.

Theoretically, you could start with a score of 850 and never use any credit, but over time your score will decline to zero. To have a good credit score you have to use credit, demonstrate your ability to pay it back and use it responsibly.

It's a common misunderstanding for people to think their credit score will be fine if they handle their finances responsibly. They are often surprised at how low their score really is.

How your score is determined doesn't always make sense to the uninitiated. For instance, if you have three credit cards, one is maxed out at \$5,000 and two are unused, it's better to spread the debt over the three cards to have a balance of less than 30 percent on each card. Two empty cards and one full does not a good score make.

Or, if you've had a credit card for 13 years and never used it, you could hurt your score by closing it. It's better to keep it open and use it occasionally. And it's better to leave a small balance



on the card every month – \$5 – because it makes for a better score.

Another thing to look out for is “doing the right thing” by paying off some old debt, without knowing the consequences. Let's say you want to buy a house, and you decided to first pay off some old medical bills to clean up your credit record. Well, you just unwittingly transformed dormant activity – that had already been factored into your score – into new activity. No good deed goes unpunished. That move could cost you major points to the negative.

I recommend you get your credit score and learn what it means. If you have questions, discuss it with a credit specialist like me before you finance anything. If you have errors, fix them. If you have a mess, start cleaning it up.

## Credit Recovery

There is an amazing tendency for people facing a credit crisis to bury their heads in the sand. Whatever the underlying reason, we encourage you to talk to a credit professional. Nobody is too far gone that they can't set a path toward an acceptable score.

When we are helping a client repair their credit score, we discuss their goals. Are they trying to get a loan? Have they been denied credit and need to restore their score? Then we review their credit history. Make sure the records are accurate and challenge errors. Sometimes you need an advocate. This is one of them.

It's not uncommon to find hidden problems and have them removed from your record. For example, if you applied for a car loan in the recent past, chances are good that a dealer looked up your score when shopping for financing – that's a “hard inquiry” to a bunch of finance companies, creating additional “hard inquiries.” What does FICO see? It looks like you have a problem getting financing. Your score will likely go down.

Our average client is with us for six months,

during which time we educate them on how they can more effectively use their credit, learn strategies for protecting the good credit they have and help clean up errors in the credit records. There is no magic solution.

In discussing credit challenges, it's important to touch on the foreclosure crisis that finds so many homeowners upside down on their mortgage and threatening their credit score if they miss a payment.

It doesn't hurt to be proactive. If you are upside down on your mortgage and are worried about making payments, there is a new option that may help keep you out of foreclosure and lower your payments. Under new rules for the Home Affordable Refinance Program (HARP), the maximum loan to value cap for refinancing a fixed mortgage has been removed. We have helped our clients take advantage of the program and assisted with new financing that has lowered their monthly payments and protected their credit score. There isn't space here to discuss it in full, so give me a call if you want more details.

## Perform Annual Credit Review

You should have your credit reviewed at least annually for credit health and identity theft prevention.

Statistics show that 1 individual in 25 will become a victim of identity theft this year. Make sure you practice good defensive behaviors such as covering the keypad at the ATM, shredding your financial documents before recycling, being careful how you use your credit card on line, etc. Don't become another statistic.

Just as important, you should learn how to check your own score so you can see what is happening. Contrary to what you may have heard, self checking doesn't affect your score. We make sure all our clients are able to check their scores.

## Conclusion

Before you make any financing decisions, take time to review your credit history with a qualified credit counselor so you can take action to shore up your score if necessary. Make sure that any credit protection or restoration company you work with is bonded and insured. (Most aren't.) And if they are asking for money up front, unless they are a law firm (different rules), turn and run away. Beware of the Internet as there are tons of credit restoration scams out there.

Most importantly, work with someone you trust.

## NBM

Aaron Barr is cofounder and president of CreditTek Inc., which offers credit protection/recovery services and mortgage solutions. He can be reached at (612) 817-9331 or

aaron@credittek.com.

www.credittek.com.

# Using Insurance to Manage Your Risk

## Not All Businesses Need Insurance—Just Those with Prospective

By Dawn Bijou Janes  
Minnesota Insurance Group

*Special to New Business Minnesota*

Becoming a business owner can be as subdued as waking up and finding your hobby is now a business. Or it can come with a big splash and fanfare with investors, an open house and lots of advertising and press.

No matter your journey, your business is exposed to potential claims from many sources. Insurance is one tool, but not the only tool, used by businesses to limit those risks.

Many business owners don't think much about insurance. Well, at least not until someone asks for proof of insurance or until something happens to them or someone they know that makes them realize they should have protection.

Sometimes insurance is in the business plan and is secured before a business opens, but more often than not, it is an afterthought and an expense a business owner is not excited to take on.

Our office frequently works with businesses that need to secure coverage instantaneously for one reason or another. The right time to secure insurance is as soon as you recognize the need and before the loss happens.

### General Liability

Initially your business begins with general liability exposures, which include damage to the property of others, injury to another person, as well as for negligence in your advertising materials, allegations of libel, defamation or slander, or claims related a product you make or sell.

Each of us has the possibility of injuring someone or damaging property in our day-to-day lives. Regardless of whether you meet clients at your office, at their office or at a coffee shop, you have a general liability risk.

Your general liability follows the activities of your business. So as long as you are in the course of your business, your general liability could come to your defense and possibly pay for the claim. This type of insurance is often much less expensive to secure than people think. We have clients with policies as low as \$150 yearly with an average premium range of \$350 to \$1,000 yearly.

### Professional Liability

If what you "sell" is a service or your advice, then you would also have professional liability exposures, often called errors or omissions liability. This protects you if a client or competitor alleges your advice violates certain laws, is defamatory or harms their reputation, causes a business loss, does not deliver upon expectations, fails to meet with contractual obligation, or other claims



of your failure to perform your business to the level expected.

### Unanticipated Insurance

Newer businesses should be aware they have risks they might not have anticipated, such as auto liability for autos owned by the business as well as for rented autos or non-owned autos driven by employees or others under the direction of the business.

If you have an employee, no matter how few hours they may work, you are required to carry workers compensation insurance. If you have business property such as computers, software, equipment, furniture, and inventory, or if you have a loan for any amount of property, you should also consider business personal property coverage.

Some businesses also have some specific coverage needs. These might include coverage for business income losses. A shoe store in a building that burns down might be out of business for months. They would need coverage for the loss of income during the months the building is repaired in order to meet loan payments, payroll and other ongoing business obligations.

A business might need employee dishonesty coverage to protect them from theft of money from the business. A restaurant completes an accounting audit and finds out that a long time employee has been taking money for several months. They calculate they have lost thousands and would want to be reimbursed for this loss.

A company may establish a formal board of directors and need Directors and Officers cover-

age to personally protect the people serving on the board for the corporate decisions they make.

A database analysis company working with retailers has access to the customer's credit card numbers through remote access to the retailer's network. They now need cyber liability to protect them from virus transmission or data loss claims as well as privacy liability to protect them from privacy disclosure claims and the costs of notifications to the affected customers.\

### Where to Start

With so many different areas of risk, what is your first step? If you have a knowledgeable trusted commercial insurance agent, call them. If your current agent only handles personal insurance, if you have had trouble finding business insurance information through other channels, or if you're not confident in your current insurance relationship, ask for referrals from other business owners you know.

Then what? Approach your relationship with your agent as a partnership in your business. You should expect them to ask you questions about your business, how you operate, what types clients you plan to serve and how, your short term and long term projections, what types of claims could someone in your field experience, and what types of practices you have in place to protect yourself from those claims.

Your agent should be experienced in your particular industry or have other relevant commercial industry insurance knowledge or be able to demonstrate the ability to obtain the knowledge to be able to bring value to your business.

Lastly, ask your agent about non-insurance related solutions. Insurance is one way of reducing your risk but there are many other things that can be done to reduce risk and thus also reduce the cost of insurance.

Every business needs some form of insurance. Working with an independent insurance broker such as my company allows us to custom select the right policy or combination of policies from different carriers that provide our clients with broader coverage at sometimes better premiums.

You know your business better than anyone else. Work with a broker that can demonstrate the same about theirs.

### NBM

Dawn Bijou Janes, CEO for Minnesota Insurance Group, is a member of the Minnesota Independents Insurance Agents & Brokers Association and the Twin West Chamber of Commerce.

Dawn can be reached at (952) 930-3661 or [dawn@mnagent.com](mailto:dawn@mnagent.com).  
[www.MnAgent.com](http://www.MnAgent.com).