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The Monthly Resource Guide For Startup Businesses

NEW BUSINESS MINNESOTA

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The Power of Cash Flow

Special Report

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 financial experts: **Pam Krank**, The Credit Department (Credit Management); **Jeff Manthe**, Compound Profit (Factoring); **Stephanie Laitala**, Owl Bookkeeping and CFO Services (Accounting) and **Randy Carlson**, Hiway Federal Credit Union (Banking Services)

The Power of Cash Flow

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.

***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 Minnesota 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 on Nov. 8, 2011 at Hiway Federal Credit Union headquarters in St. Paul. For more information, go to www.newstartupmeetup.com to register and RSVP. The workshop will be followed by one of our Startup Meetup networking events.

Cash Is King – Preserve It

A Solid Cash-Flow Plan Is Key to Success

By Randy Carlson
Hiway Federal Credit Union

As a new business you're going to hear the phrase "Cash Is King" a lot. The reason is cash is what fuels your ability to maintain and grow your business. If your cash flow withers, so will your business. Managing it is your number one financial responsibility.

A key part of developing good cash-flow practices is to have a solid relationship with your business services advisor, who can introduce you to a variety of banking tools that can help you make the most of your dollars.

When you have regular contact with your business services advisor, they'll have a better understanding of how you're doing and can recommend services that could be useful. And they will be able to alert you to special offerings or new programs you might not know about.

Begin with Business Plan and Process

When a business comes in and starts asking about banking services, one of the first things I want to do is review their business plan. It tells me where they are and where they want to go. It's a valuable document that lays out your business model and goals, not just for you, but for others who want to work with you.

Next, I want to look at what kind of policies and procedures the business has in place. This tells me if the company is set up to manage its cash flow. I want to see how they handle accounts receivables, if they offer incentives for early payment or accept credit card payments for small orders.

Healthy businesses have policies in place and they follow them. They have clearly spelled out credit terms and they have a collection program that keeps them on top of delinquent accounts.

Every business should also produce regular financial reports: profit and loss statement, balance sheet, tax statements and cash-flow statements.

When a business needs a term loan or a line of credit, it will be most helpful to have all of these reports and documents available for review, preferably with a business lender you have a relationship with.

I try to meet with a business annually—quarterly if the business is complex—to review their financials and if their banking needs have changed. Occasionally we ask new businesses to come in on a monthly basis to keep an eye on payables and receivables and track cash flow. It's in these meetings that we can see how the company is performing and discuss strategies to better manage things.

Cash Management Strategies

Line of Credit – Some businesses have income or expenses that don't arrive in a steady flow. The bill is due today, but the income will arrive next week. A line of credit will allow you to pay the bill today and next week you repay the line when the income comes in. You can also borrow against the line as needed for major purchases as a way to preserve your cash.

Savings/Certificates – If a member (credit unions have members, banks have customers) comes in and the company is growing by leaps and bounds, we may recommend that they put their excess cash in a certificate or a savings account and open a line of credit against it so they're not touching their cash. With an economy that is throwing a lot of surprises, this practice is smart and it will weigh in your favor if you apply for any type of financing.

Remote Deposit – This is a relatively new service that allows you to scan in check payments and deposit them through a secure, encrypted internet connection directly to your account. The money gets to your account quicker and you spend less time driving.

Online Banking – A large portion of our members take advantage of online banking because it gives them the ability to manage their accounts 24/7 in real time. Transfer funds between accounts, pay bills and make credit card payments. You can even do it with your smartphone.

Keeping Cash on Hand – When some businesses have extra cash they spend it right away, buying equipment, supplies or paying down debt. Those are all worthy considerations, but they should also be thinking about keeping some cash on hand for emergencies so the company can make it through the inevitable rough patches. That is clearly an important behavior we like to see, especially from a business that is interested in getting a line of credit or borrowing money. If they have cash, it shows they are planning for the future.

Pay on Time – Never forget that cash flows in two directions. Managing outflow is important, too. It's a good practice for a business to pay bills on a schedule. If it's due in 30 days, pay in 30 days. Rushing to pay bills ahead of time can leave them cash poor for the next month.

Credit Unions Do Business Banking

New business owners often aren't aware that many credit unions offer business banking services and do business lending. They still think of us in terms of checking, savings and lower rates on car loans. Many credit unions, including Hiway, also offer their members cost-effective business solutions that can contribute to the success of their business.

At a credit union, you are a member/owner, not a customer. Credit Unions are not-for-profit financial cooperatives. Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders. Instead, earnings are returned to our members in the form of lower loan rates, higher dividends on deposits and lower fees.

Randy Carlson is the Business Services Manager for Hiway Federal Credit Union. He has an extensive background in all types of commercial lending, cash management strategies and business banking for new and small businesses. He can be reached at (651) 265-6136 or rcarlson@hiway.org. Hiway is Federally insured by NCUA. www.hiway.org

The Process of Managing Trade Receivables.

How to get paid on time, every time, from your customers.

By Pam Krank
The Credit Department

For those of you who sell your products or services on cash or credit card terms, you're already maxing out cash flow from your sales. For those of us who must bill customers and thus extend credit, it's more complicated.

Unfortunately, you can't trust every customer to pay you what's billed, even if they have a long history in business. Today, more than 9 percent of companies worldwide are at high risk of defaulting on their debt. One wrong credit decision could wipe out your profit for the year.

For some businesses that depend heavily on a few key customers, one default will put you in default. With the right steps in place, you can ensure prompt payment on every customer invoice.

Here are a few steps that can help you manage your receivables and improving your cash flow:

Step No. 1: Get a signed contract. Contracts are essential when selling on credit. Contracts outline the terms and conditions of sale and the obligations/limitations of both parties.

If you offer credit and there are no signed contracts, you need the customers to apply for credit. This credit application, called a "Customer Profile" (more customer-friendly term), provides billing information as well as ownership background and important legal protections.

Questions to ask include: How long have they been in business? Who owns the company? Who's the payables contact? What are their sales? Who do they bank with?

In addition, you need them to sign and agree to your terms of sale including late fees, your local jurisdiction (i.e. Hennepin County) in the event of payment default, and an authorization to perform a credit check. These simple, one-page applications will greatly increase your odds of getting paid.

Step No. 2: Check them out. If your customer is a public entity, that's easy. Go to Yahoo Finance and research the last four trailing quarters – specifically Cash Flow Statements and Balance Sheets.

If the "Cash flow from Operations" is negative, see how fast their cash on the Balance Sheet will last. Cash terms may appropriate in this case. Give extra attention to those customers with share prices under $5.

Scrutinize their financials to see if there's immediate risk of default. If the customer is private, use your application to check public records to see if they have tax liens, bankruptcies, or vendor judgments against them.

If they have material filings, odds are you won't be paid. We use www.accurint.com for this service, but there are other sites online that offer inexpensive searches.

For larger risks, get an Experian or Dun &Bradstreet credit report to see how they're paying creditors. Most importantly, contact the bank listed on the application to see how their cash is flowing. If they want a $10,000 credit line and they only have $1,000 in their checking account, the odds of getting paid in 30 days are small.

Step No. 3: Bill often with short terms. There's no need to wait until month-end to invoice the customer. When you ship, bill it. If you're providing a service, bill when your payroll hits to keep your cash flowing. My company's terms are "due upon receipt," and we bill every two weeks.

No service terms should be beyond 15 days. You've already given them the service, so they shouldn't be waiting for anything before paying. If your standard is Net 30 because your customers use your product to make something, stick to the 30 days. Don't let your customers stretch to 60 or 90 days. If they insist on extended terms, first have them apply for extended terms so you can check their credit and then try to build that into your price to offset your borrowing costs.

Step No. 4: Follow-up, follow-up, follow-up. Set the expectation early in the relationship that you need to be paid on time. If you wait 60 days to call your customers for payment, you're really billing "Net 60." Customers will use your money for as long as you let them. You need to call on day 31 or 35 if you don't have payment. The squeaky wheel gets the grease, and you want to be paid first.

Don't apologize for wanting your money. Call their payables person and state clearly, "I'm calling on Invoice XXX that was due on XXXX." That's it.

Don't help them not pay you by feeding them excuses. Just wait for them to respond and hold them accountable. You provided your products and services without dispute, so they need to complete the contract and pay. Keep following up if you don't get paid within a few days – keep calling until you get paid.

Try to have someone other than the salesperson making the collection calls – preferably just one person in the company. If you are the sales person AND the collector, just tell them your bank requires you to collect your receivables within terms.

Step No. 5: If you don't get paid, go after them. First, send out a 10-day demand letter. If they don't respond, start the paperwork to get a judgment against the customer in your county courthouse if they signed your profile.

In Minnesota, you can get a judgment for up to $7,500 without an attorney. Just watch an episode of Judge Judy for practice…that's small claims court. If you don't have a signed contract with your jurisdiction, you need to go to their county to get a judgment. If the dollar amount is too high, get a third party to help you.

We use collection attorneys and agencies who work on commission only…usually they receive 15 percent to 30 percent of total monies collected. We never pay hourly for third party collection work…the only fees might be a few hundred dollars for court filings.

If you follow these guidelines and create a consistently enforced policy when you're a small company, you will have a much easier time growing your business. Your cash will grow with your sales, you'll reduce your borrowing costs, and your customers will know what to expect in your relationship. Essentially, you'll get paid on time, every time, from your customers.

Pam Krank is president The Credit Department Inc., a credit management outsourcing firm that helps its clients improve cash flow and earnings through strategic credit management. She can be reached at pkrank@tcd.com. www.tcd.com

Harnessing the Power of Your Cash Flow

Follow These Seven Factors to Generate More Cash

By Stephanie Laitala
Owl Bookkeeping and CFO Services

Never forget the three rules of cash: 1) Get the cash; 2) Keep the cash; 3) Keep the cash.

Was No. 3 a typo? Hardly. Cash is the controlling force behind your business. And having more of it is a beautiful thing.

To get more cash flow, you need a firm grasp on the inner workings of your business. How does your business generate cash today? If you're not already using a Cash Flow Statement, it's time to start. Dive into it. Find out the good news *and* the bad news.

Once you understand how you currently generate cash, you can take steps to generate more. *A lot more*. How? It all comes down to a few simple factors. Seven, to be exact: three cash flow drivers, three swing factors, and one "necessity."

Capitalize on these seven factors, and you'll be seeing green (and we don't mean envy.)

Cash Flow Driver No. 1: Sales Growth

It's a no-brainer, right? Significant cash flow growth almost always starts with sales growth.

The reason is pretty obvious: increased sales have no upper limit. Factors like gross margins and expense control are all limited by your model and your market.

The caveat: growth almost always needs cash. In fast growing companies, cash is almost always a problem. Many companies have failed because their growth outpaced their cash.

The moral: establish a sustainable level of growth, and don't outpace it. Need help identifying a sustainable growth level? Contact an expert who can help you apply the sales growth formula.

Cash Flow Driver No. 2: Gross Margin

Gross margin means sales minus the direct cost of the product or service. Higher margins mean more cash per service hour or product sold. That means that you can impact cash flow by either: a) decreasing your "cost of goods sold" expense, or b) increasing your sales price. Neither should be undertaken without careful consideration and market analysis. No company wants to become a statistic because they cut "muscle" instead of "fat" or overpriced for their market.

Cash Flow Driver No. 3: Selling, General and Administrative Expense

SG&A is the third-largest cash flow driver. This factor essentially includes everything outside of direct cost of goods/service sold. It's an inclusive category, so it's not productive to offer a generalized solution. But one thing is certain: it's certainly easier to increase SG&A costs than it is to *decrease* them.

When a business is doing well, SG&A costs often creep up. When a business is doing poorly, these costs tend to be hacked carelessly. Even if you're in big trouble, it's critical to make smart cuts or else you may hit an artery.

Cash Flow Swing Factor No. 1: Accounts Receivable

Now we're on to the swing factors. The first swing factor is all about the terms you give to your customers and how well you manage to those terms.

As many cash-strapped companies will attest, AR can tie up a whole lot of cash. If you don't collect, you're serving as a bank for your clients.

The best way to impact AR? Establish a credit policy and stick to it. First, ensure that your terms are within industry norms. Next, *manage* to those terms: educate your clients and, if necessary, become the squeaky wheel. Money is a powerful motivating factor, and late fees often get the job done.

Cash Flow Swing Factor No. 2: Inventory

It's a simple formula: Inventory = Cash. When you spend money on inventory, you want to convert it into income from your customers as soon as possible. After all, inventory generates zero cash sitting on your warehouse floor.

There are multiple ways to streamline inventory. First, of course, is more accurate forecasting, which allows production and intake to keep pace with sales. You can also look for opportunities to streamline. (Can you standardize components? Explore just-in-time delivery?)

If you're a business with inventory, you should measure it monthly. After all, it's idle money.

Cash Flow Swing Factor No. 3: Accounts Payable

The third swing factor is heavily influenced by terms. More specifically, we mean:

1) What terms do your vendors offer?

2) How closely do you manage to those terms?

Consistency is a lovely thing when dealing with suppliers and vendors. Many companies pay quickly when cash flow is good, and stretch things out when cash flow is tight. This may help "share the burden and the spoils," but consistency is often more greatly appreciated. With consistency, you neither confuse your vendors with uneven behavior nor create expectations that may be frustrated later as you encounter changed circumstances.

To impact accounts payable, consider the following:

• Up-front negotiations. With a new client – or any new contract – negotiate, negotiate, negotiate.

• Discounts. What can you justify ordering in bulk? Can you benefit from cash-n-carry deals? What about Internet discounts?

• Prioritizing. Not all payables are equal. For some payables, late payment means serious consequences. When cash is tight, take care of top priority payables first.

Here's the inside scoop on the swing factors: there may be wiggle room, but above all else, be ethical. Be wary of seeking out the limits of your vendors' patience. You may damage your reputation – and your business.

The Necessity: Capital Expenditures

Capital expenditures include plant equipment, furniture, office equipment, computers, and any other must-haves.

Some capital expenditures (such as plant equipment) are directly tied to revenue generation. Others are necessary just to stay current.

Most growing businesses go through an accelerated growth phase, then it slows, then it plateaus. Over the full cycle, the need for capital expansion and the ability to fund it internally move – perversely – in opposite directions. At the peak of growth accelerations, a company's need for space, equipment, etc. is usually the greatest. This is, of course, exactly

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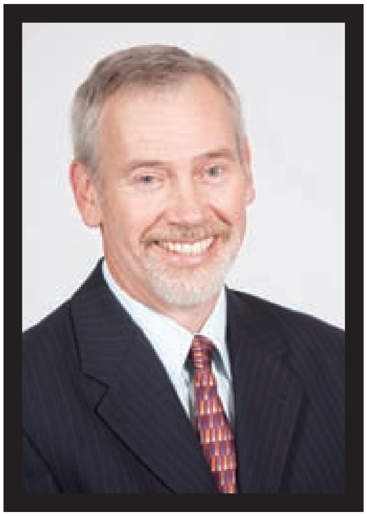

Increase Cash Velocity by Selling Your Invoices.

Accounts Receivable Financing, Known as 'Factoring,' Is Valuable Cash Flow Management Tool Worth Exploring.

By Jeff Manthe
Compound Profit

Fortunately, there are options like off-balance sheet financing tools available to help new and small business owners better manage cash flow. These alternative financing tools are designed to help you grow your business without taking on debt and without giving away equity in your company.

And they keep your cash flowing so you can meet your immediate operating needs and help you avoid being an "accidental banker" to your customers who are slow to pay.

Accounts Receivable (A/R) financing, also known as factoring, allows a business to leverage one of its best assets – accounts receivables. If you give payment terms to your business customers you can speed up those payments by selling the invoice to a factor (the funder), who then collects the payment from your customer.

The factoring process is as follows:

1) Your company provides goods or services to a business. (Business-to-business environment only.)

2) Your company invoices that business for goods already delivered or services already rendered, allowing payment terms of 15 days or more.

3) The factor purchases the invoice from you at a discount and advances 80 percent of the value of the invoice directly to your business bank account.

4) Your customer pays the factor directly.

5) The factor submits the remaining 20 percent of the invoice, less the discount, directly to you.

Let's put some real numbers into this by using the following scenario:

1) ABC Company manufactures widgets and ships them to Company XYZ.

2) ABC invoices XYZ for $10,000 with 30-day payment terms.

3) Factor Company purchases the $10,000 invoice from ABC at a 3% discount and deposits $8,000 into ABC's checking account.

4) XYZ pays Factor Company $10,000 on day 28 of the invoice date.

5) Factor Company keeps $300 (3 percent of $10,000) and deposits $1,700 into ABC's account.

When searching for a factoring company, be sure to ask the right questions:

• Is there an application fee? (Look for a company without an application fee. A small due diligence fee once the company is qualified is common practice.)

• Do you require our company to sell every invoice to you? (Some factors require all A/R to be sold on the day the invoice is generated. Look for a company that is flexible, allowing you to choose which invoices to sell.)

• Can we hold the invoice for a period of time to keep our costs down? (Factor rates are based on time, usually the first 30 days is one rate with additional points added after 30 days. For example, 3 percent for the first 30 days with 1 percent added each 10-day period thereafter. You can save a lot of money if you can wait a couple of weeks to ensure your customer will pay the factor within 30 days of the date you sell the invoice.)

• Is a monthly minimum required? (If you are a seasonal business, be sure the factor is flexible so you are not stuck with minimum fees when you know your business will be down in your off-season.)

• Is a yearly contract required? (Some factors require a one- or two-year contract while others will do spot-factoring. If you want to do spot factoring, invoice by invoice, be prepared to pay a higher discount fee.)

Some of the benefits of accounts receivable financing:

• Builds business credit

• Quick financing without mountains of required paperwork

• Accelerates cash flow based on business receivables

• Rates and approval are based on the creditworthiness of your customer base (not your business)

• Factor company handles all credit and collections, allowing you to concentrate on your business

• Your credit line grows as fast as your business grows

Startup companies are a great fit for factoring because you can start out small and grow quickly. One trucking company client started with a single $600 invoice and within two years had grown to over $350,000 in invoices per month with over 400 drivers. Now that's powerful fuel for growth!

Jeff Manthe, owner of the Compound Profit Minnesota/North Dakota region, brings more than 20 years of business and financial experience with him and has been instrumental in helping local companies get financing, especially when they can't meet bank requirements. Compound Profit services include A/R, P.O. and inventory financing, equipment leasing, unsecured financing, lines of credit, SBA funding, merchant processing, and commercial credit building. Jeff can be reached at: (877) 386-3716, ext. 235 orjmanthe@cprofit.com. www.cprofitmn.com

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when they don't have the money to fund it.

It's important to spend money wisely here. Investing in the wrong technology or not staying current can be deadly.

The (ahem) bottom line:

Cash flow management is a fine art.

Your ability to drive cash flow depends on a multitude of factors, and not all of them are intuitive.

Do the research. Take partners. Invest in expert guidance. With some strategic tweaking, your company can get with the (cash) flow.

Stephanie Laitala is President, Owl Bookkeeping and CFO Services, which provides outsourced accounting services to small and mid-sized companies through full charge bookkeepers and CFOs. She can be reached at (612) 816-6007 or Stephanie@owlbookkeepingandcfo.com. www.owlbookkeepingandcfo.com.