



**Small Businesses:
Weathering the Economic Storm**

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A White Paper by Stephen King
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The old adage: “When times get tough, the tough get going” applies to small businesses in today’s economy. With bankers tightening their lending and stocks plummeting, small businesses naturally feel the ripple effect. But the economic woes don’t have to impact your business as long as you can get tough and follow these best practices to minimize the downside and capitalize on opportunities to help you through this economic crisis.

Step #1: Implement Cash Flow Best Practices

Cash flow is the lifeblood of any small business. Poor cash flow is the reason 85 percent of all businesses don’t make it to their fifth year. Click the link below to download a GrowthForce white paper which discusses how to avoid cash flow problems:

<http://www.growthforce.com/cashflow.html>

Our white paper outlines the best back office practices which the Fortune 500 companies implement to improve their cash flow and how you can apply them to your business. Specifically we focus on credit policies, billing practices, collections procedures and payment policies. Our top tip to take to the bank is: bill as frequently as possible.

Step #2: Manage a Cash Flow Forecast

The best way to keep track of your cash is to create a cash flow forecast. While a budget is an annual projection of revenues versus expenditures, a cash flow forecast takes a shorter view of the future which is more appropriate for tentative times.

A best practice is to develop a six-week cash flow forecast report in which data can be downloaded from QuickBooks directly to Excel. The report should follow these simple steps to summarize a company’s cash flow for the next six weeks:

- a. **Account Receivables** – Download your account receivable summary from QuickBooks. Then forecast your weekly cash collections for weeks one through six.
- b. **Account Payables** – Predict your weekly expenses for the next six weeks. Make sure your bookkeeper doesn’t have a “clean desk rule” – paying

bills immediately. Implement a pay slowly rule – take full advantage of vendor terms.

- c. **Recurring, Non-payables Expenses** – Forecast your recurring cash outlays such as rent, loan repayments and payroll.
- d. **Actual Results** – Add it all together and you can track actual results closely to help you better forecast the future and indicate early warning signs of cash flow troubles.

Step #3: Evaluate Margins

Every business should have a target gross profit margin and operating income. The best run companies, big or small, can quickly put their fingers on that margin for every customer and every product line.

In times of fluctuating costs, it's important to adjust prices based on market conditions. Recent roller coaster fuel costs are a case in point. If you haven't passed on increases, it's time to do so.

QuickBooks is a powerful tool to aid in job costing and pricing. The time tracking function introduced in QuickBooks 2008 allocates labor costs automatically to profit centers. GrowthForce can set up time tracking systems by job, by customer and by product to ultimately determine profitability for each of those categories.

Step #4: Control Your Costs

Costs are either fixed or discretionary. Fixed costs don't change overnight such as rent and insurance. Discretionary costs are fixed within a relative range, like payroll and travel, and are completely controllable costs.

Set up your QuickBooks file to segment costs so you can track costs based on fixed or discretionary behavior. Most cost of goods sold expenses are not discretionary. Make sure, however, that you are passing through all the costs you can to your customers. Then focus on indirect expenses. Involve your staff. Everyone should question every expenditure. You'll be amazed at how *much* savings you can find

Step #5: Strengthen Your Banker Relationship

With all the upheaval in the banking world today, it's more important than ever to develop a good relationship with your business bank. Now's the time to build your relationship with your banker – or cement an existing one. Yes, loans may be harder to come by, but knowing key contacts at your bank can make a difference in whether a loan is approved. So feel free to take your banker to lunch.

To understand how bankers make lending decisions, you need to know the five C's:

1. **Character** - This depends primarily on the borrower's credit report and payment trends.
2. **Cash Flow** - A business must have enough cash flow to repay the loan and pay all other business expenses, as well as personal needs. This is true whether the loan is for an established business, a start-up or business expansion.
3. **Collateral** - These are assets the borrower offers the lender to secure a loan in the event it is not repaid. The primary collateral will be the business' assets, but if these are not sufficient, personal assets may also be required.
4. **Capitalization** - This consists of the business' resources including fixed assets, retained earnings and owner's equity. Funds borrowed from a source such as the seller of a business do not improve the equity position of a borrower.
5. **Conditions** - This refers to external factors such as competition and industry trends. Any business related to consumer spending is going to be a tough loan candidate right now. But construction, sign repair and tree-removal businesses continue to shine.

Step #6: Don't Leave Your Cash Unprotected

Can too much cash in the bank be a bad thing? Yes. In a skittish economy, we're seeing more of our clients move money from stocks to cash. If you've taken this road, don't keep more than \$250,000 in one bank account – otherwise the excess isn't covered under FDIC insurance.

Instead, a best practice is to move cash to Government T-Bills. Also known as Government Cash, they're a cash management portfolio as liquid as cash, income exempt from state taxes and fully backed by the U.S. government for up to \$250,000. For more information, contact Michael Rogala, Bernstein Global Wealth Management: Michael.Rogala@bernstein.com



For More Information

Please email info@growthforce.com or call 281-358-2007.

GrowthForce would be happy to review your current use of QuickBooks processes and make recommendations or provide outsourced services to help you improve your business decision making capability and reduce risk of fraud..