The Ultimate

Small Business Playbook

By: B2B CFO® www.b2bcfo.com

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Introduction

Thank you for downloading the latest e-book from B2B CFO®. We have tried to compile a collection of insightful business tips for the small business owner. These articles are written by B2B CFO® partners and are the result of over 5,000 years of collective experience in the business world.

We have organized these articles by author rather than topic since there are so many different categories that are addressed. Please review the table of contents in order to find the articles that can help you the most with your business.

Articles By **Mark Gandy**

What Forecasting is Not

Forecasting is not about ***predicting*** the future. And while everyone knows that, the CEO's and CFO's in the war room continue to forecast like they are predicting what will likely happen. At least that's what I experience regularly through listening to corporate leaders.

Instead, let this small-town CFO offer his take on forecasting (it can be cash, production levels, sales, or how many games the Cubs will lose this year):

1. Forecasting is about trying to make better business decisions based on what we know today. Accordingly, *forecasting is not a prediction*. Bottom line, the forecast is only as good as your assumptions. Poor forecasts? Then the result is poor assumptions.

2. You will get better at this over time. *Accordingly, forecasting is not an ongoing practice of futility*.

Let's say you start a forecasting process as part of a new management system you start (one that forecasts sales, production levels, and inventory). I promise you the first 3 or 4 months will be fair to poor. But in time, you will get better and better. One way to show improvement in this process is to use a **waterfall chart** – I give them to clients who are only serious about excellence and want to take their B game to an A game in all areas of their business. Stay the course; you'll get better at this.

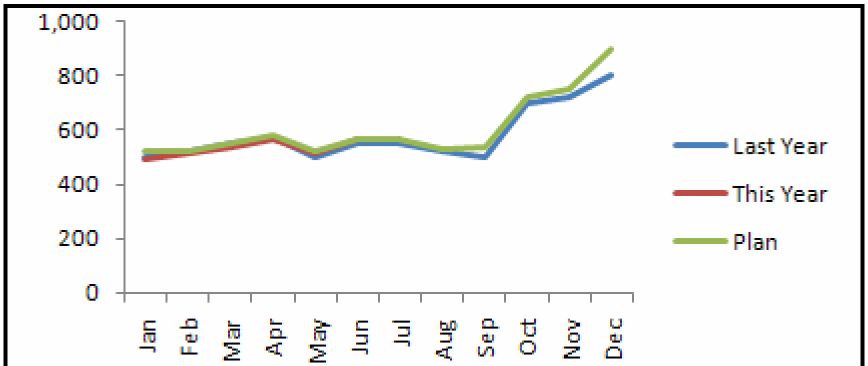
3. Forecasting starts at the macro level, *not the micro/detailed levels*. That's why I initially don't like accountants involved in forecasting. Many like to start with the details and look at history. Instead, the view should start high (where's the market heading, what are the current trends, what's happing in the economy). Ignore the macro level and you are flirting with disaster.

Case in point, I was visiting with a banker (one of the sharpest banking minds I've ever encountered in 20 years). We were talking about case goods for wine product. He stated some wineries like to push growth to the extent they case too many gallons, then they get stuck with all those case goods. The end result is that they have to dump the goods through huge discounts. I countered that would never happen in an environment where there is a formal forecasting and planning process in place. He agreed.

Parting Comments

Finally, eventually dump the term forecast and exchange it for the term plan, because that's exactly what we're doing–planning the future based on what we know today. The planning process should be adaptive, agile, and collaborative. Adaptive and agile are self-explanatory. Collaborative means getting the key team involved (the sales VP, the OPs manager, the CFO).

And while we said forecasting is about trying to make better decisions, specifically, it's about matching demand with supply. So if you are a products-based business, understanding the future demand helps you to plan production and inventory levels accordingly. The same applies to service-based businesses. There's an art to planning excess capacity human resources when future demand looks weak. Bottom line, the goal is to get demand to approximate your supply-side products or service levels.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Last Year	500	525	550	575	500	550	550	520	500	700	725	800
This Year	490	515	539	564	515	567	567					
Plan	525	525	550	580	525	570	570	530	540	725	750	900

Weekly Financials

One of my favorite topics–***weekly financial statements***.

My third controller/CFO client in 2001 actually taught me something. While I was big on the one-day close or same-day close already, I never knew about weekly financials in non-banking situations (as a KPMG Peat Marwick accountant, my bank clients had those ugly green bar reports showing their financials from the day before–so I knew about daily financials already, albeit in the banking arena).

Ten years later, the weekly financial report is one of the most important flash reports you need to look at every Friday or Monday. And below are just a few recommendations to pull these off:

1. Keep them simple. Quickly, you want to know what happened last week and if changes are needed. You should only need to study this flash reporting in just a couple minutes, so detail is not required. Certainly, if you want drill-down capability, the make that supplemental detail, but keep the primary reporting stupidly simple.

2. Forget the monthly/period expenses. Just focus on direct costs. Only do payroll every two weeks? No big deal. In this case, you need two pieces of information–hours worked and average hourly pay rate. Those can be used to calculate direct labor. I have a sample contribution margin report below showing the numbers that count.

3. Consider a trailing 4 or 8 week analysis with a target column. I like 4 weeks because I'm concerned about last week and I already know what I want my target to be. If I want to do trend analysis, that's fine and there's great software to do that. I want this darn thing to be simple and a quick-read. Four weeks works for me. It should for you.

4. Tailor to your situation. In the example below, the format and process works great for retail, distribution, and hospitality. How about service firms with longer-term projects? Then customize. For example, columns could include each project showing current revenues with direct costs and then expected revenues and costs to complete. Remember, there are no rules for format and what's included or left out–you make the rules. Bottom line; find a weekly reporting format that works in your situation.

DO THIS. There is no excuse not to include these in your weekly flash reporting. Ignorance, laziness, and apathy are not reasons to punt on these. Want to be better? Implement this stupidly simple tool. The time and expense to develop and implement this process will be very low.

	Trailing 4-Week Contribution Margin				
	1/13/2011	1/20/2011	1/27/2011	2/3/2011	Target
Revenue	725,000	729,000	692,000	713,000	715,000
Cost of Revenue					
Product	239,250	247,860	224,900	249,550	232,375
Labor	42,050	61,965	40,136	55,614	56,485
Freight	7,250	8,748	8,996	7,130	8,580
Other Direct	14,500	18,225	13,840	14,973	13,585
	303,050	336,798	287,872	327,267	311,025
Contribution Margin	421,950	392,202	404,128	385,733	403,975

	Trailing 4-Week Contribution Margin				
	1/13/2011	1/20/2011	1/27/2011	2/3/2011	Target
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue					
Product	33.0%	34.0%	32.5%	35.0%	32.5%
Labor	5.8%	8.5%	5.8%	7.8%	7.9%
Freight	1.0%	1.2%	1.3%	1.0%	1.2%
Other Direct	2.0%	2.5%	2.0%	2.1%	1.9%
	41.8%	46.2%	41.6%	45.9%	43.5%
Contribution Margin	58.2%	53.8%	58.4%	54.1%	56.5%

Cash Projection Basics

Too bad I don't have a dollar for every cash projection model I've built over the years. Most are stupidly simple, but all have this in common. They work.

A few days ago, an awesome CFO asked for some examples of my cash projections tools. If he asked, a CFO, maybe non-CFO's need to know what they look like. So here goes.

First, simplicity and big picture. Can I make payroll at the end of the month, or not? Can I even buy inventory this week? Do I need to extend my line of credit? The projection tool should answer these questions quickly.

The Basic Elements of a Cash Projection Model

1. Start with a clean beginning cash number. Reconcile cash daily, no exceptions. Then start with that clean number.

2. Enter your LOC limit which is required in the analysis deeper in the model (see image below). I love the financial term called **cushion**. As we project cash, we want plenty of cushion between the projected LOC balance and your LOC limit.

3. Enter your projected cash outlays–the big guys. Forget the little stuff. Your big numbers are inventory purchases, payroll, rent, and other regular ongoing payments.

4. Enter cash receipts–this can be harder if your receipts are irregular. Guess, and be conservative. Do this weekly, and you'll get better at it.

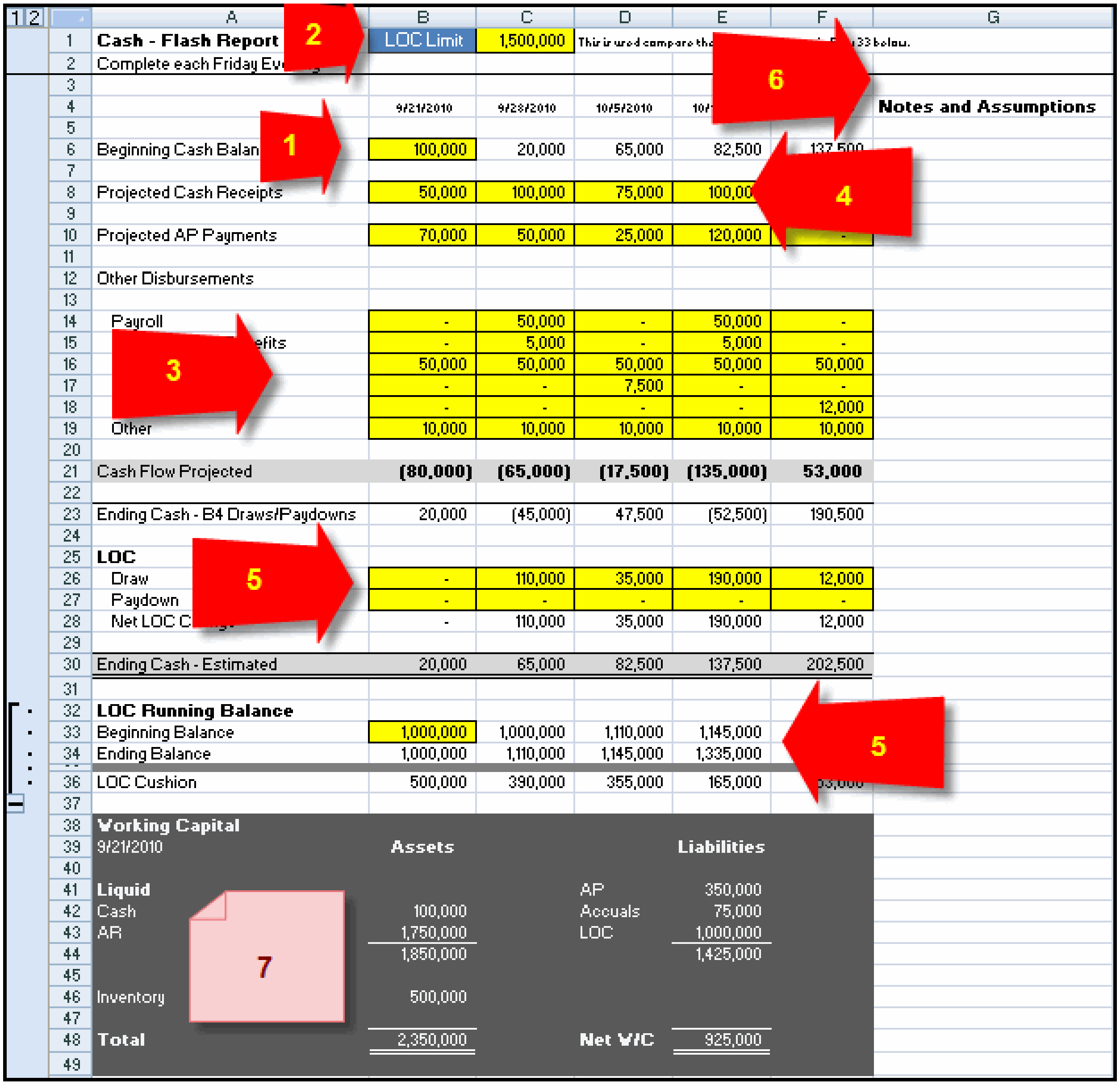
5. Now start entering projected draws and pay downs based on your projected cash flow. I used to make this a calculated number, but I quit doing it for strategic reasons. I wanted owners and their accountants to really think through the process by doing the LOC math manually. Then, look at the LOC results which follow.

6. I'm big on documentation. Ask my buddies. They'll confirm I'm anal on documentation. So have an area to list your assumptions. Your projections are only as good as your assumptions.

7. Finally, have a summary section showing the big picture. There are scores of ways to this. Bottom line, the CEO should determine what he/she wants in the summary section.

I recommend doing this activity weekly in either 5, 9 or 13-week increments. There is no right or wrong time period. But here's a good rule of thumb. Bigger cash flow problems should equal a longer time horizon. So if you are always living week to week, consider a 13-week rolling forecast (and fix the causes of your problems too).

Finally, your cash projection tool needs to be actionable. Serious problems should lead to a small handful of activities that need to be carried out (for example, calling past-dues ASAP or asking select vendors for an extra ten days).



	A	B	C	D	E	F	G
1	**Cash - Flash Report**	LOC Limit	1,500,000	This is used compare tha		33 below.	
2	Complete each Friday Ev						
3							
4		9/21/2010	9/28/2010	10/5/2010	10/		**Notes and Assumptions**
5							
6	Beginning Cash Balan	100,000	20,000	65,000	82,500	137,500	
7							
8	Projected Cash Receipts	50,000	100,000	75,000	100,00		
9							
10	Projected AP Payments	70,000	50,000	25,000	120,000	-	
11							
12	Other Disbursements						
13							
14	Payroll	-	50,000	-	50,000	-	
15	efits	-	5,000	-	5,000	-	
16		50,000	50,000	50,000	50,000	50,000	
17		-	-	7,500	-	-	
18		-	-	-	-	12,000	
19	Other	10,000	10,000	10,000	10,000	10,000	
20							
21	Cash Flow Projected	**(80,000)**	**(65,000)**	**(17,500)**	**(135,000)**	**53,000**	
22							
23	Ending Cash - B4 Draws/Paydowns	20,000	(45,000)	47,500	(52,500)	190,500	
24							
25	**LOC**						
26	Draw	-	110,000	35,000	190,000	12,000	
27	Paydown	-	-	-	-	-	
28	Net LOC C	-	110,000	35,000	190,000	12,000	
29							
30	Ending Cash - Estimated	20,000	65,000	82,500	137,500	202,500	
31							
32	**LOC Running Balance**						
33	Beginning Balance	1,000,000	1,000,000	1,110,000	1,145,000		
34	Ending Balance	1,000,000	1,110,000	1,145,000	1,335,000		
36	LOC Cushion	500,000	390,000	355,000	165,000		
37							
38	**Working Capital**						
39	9/21/2010	**Assets**			**Liabilities**		
40							
41	**Liquid**			AP	350,000		
42	Cash	100,000		Accuals	75,000		
43	AR	1,750,000		LOC	1,000,000		
44		1,850,000			1,425,000		
45							
46	Inventory	500,000					
47							
48	**Total**	2,350,000		**Net W/C**	925,000		
49							

Articles By David Kirkup

How to break out of your business plateau

Entrepreneurs often hit plateaus as their business transitions from the startup phase into the next growth phase. It might be that sales growth is stalled, or that more and more procedural tasks seem to pile up. It might that the business owner is starting to feel a little burned out.

But plateaus can offer a good opportunity for improvement. Here are several steps help you push through to the next level:

Find experts

You can find experts in every field or industry where you might need help. There are experts in every field, industry, hobby or any area you need help with. Seeking advice from others, who have been there, may help find a short cut.

Ramp up your reading

The web offers a huge window on knowledge and research via Google will often locate a fire hose of good information. Find PowerPoint's to jump start your own presentation, solutions you have not thought of, ideas to take to the bank. Read a good business book, in fact, read a good business book or journal at least every month.

Network with Peers

Find someone on LinkedIn in a similar but non competing role and network. Build an Advisory Board of like-minded professionals to share information and ideas.

Brainstorm new Ideas

Spend some time brainstorming new ideas to implement. Break out of the rut and do some in-depth thinking about tasks, procedures, objectives.

Work Harder

Force yourself to do the things you have been putting off. De-clutter. Clearing your desk may make you feel refreshed and ready for a new challenge.

Work Smarter

Sometimes, working harder isn't the solution, but working smarter is. Try focusing on #1 priorities for longer periods of time, and refuse to allow the #2s and #3s to intrude for a while. Work these productivity stretches into your daily timetable.

Look at Your Productivity

How much are things like email, social media and consistent interruptions impacting your day? If distraction is adding to your inability to get past the plateau, work on a plan to eliminate or reduce it. A simple change, such as checking email and social media sites just a few times a day, can be just what you need to get past a plateau.

Call In Reinforcements

We all need a little help from time to time. If your plateau is caused by simply too much on your plate, get rid of something. As an Entrepreneur you are – or should be – the Finder. If you're not finding new business and improving customer relationships then you're failing. Partner up with trusted advisors – like a B2BCFO to make your workload more manageable.

Personal Branding – Taking Control

In a 1997 Fast Company article, management guru Tom Peters is credited with inventing the term Personal Brand. Peters said, "Regardless of age, regardless of position, regardless of the business we happen to be in, all of us need to understand the importance of branding. We are CEOs of our own companies: Me Inc. To be in business today, our most important job is to be head marketer for the brand called You.

It's that simple — and that hard. And that inescapable."

So how do you build your Personal Brand in the age of Social Media? Is it time to get on LinkedIn? Some would say that if you're not already LinkedIn, Facebooked, Tweeted and Digged then you don't exist – brand-wise, that is.

British branding coach, Lesley Everett (author of Walking TALL) describes a Personal Brand as being just like a corporate or product brand. It's how you make others feel about you, what people say about you, and the words they use to describe you. If it's that important, then constant Brand Management is obviously going to be necessary.

Everett has several key steps to build that brand including:

1. Who you really are – Getting feedback from others on how they see you is a good beginning. Ask others for three words to describe you. This collection of perceptions from others is your brand. Is it working?
2. The First Seven Seconds – that's all it takes for others to judge us. People make snap decisions based on what you look like, what you sound like and what you say.
3. Dress like you mean it – style, dress and grooming are important components of your brand. Are you presenting yourself in a way that invites trust and credibility? Do you smile and have a good handshake with positive eye contact.
4. Consistency – this is key since the consumer experience has to be repeatable in order to build value.

While much of this may sound like Etiquette 101, it's certainly true that each of us has the capacity to control our external image, and that image is part of the reason that others will do business with us.

Two Numbers that Every Business Owner needs to know.

There are really only two numbers you need to track in your business. You should know your **Current Business Value** and your **Potential Business Value**. Together these numbers can help you improve your earnings, build your retirement fund and ensure you have a successful Exit strategy. In a typical business the Potential Business Value can be two or three times the Current Business Value. We call that ratio the **Business Value Improvement Index™ (BVI Index™)**, and your long term goal is to equate Current and Potential Business Value and get a BVI index of around 1.0.

The **BVI Index™** promises to reinvent the way companies are sold by focusing on benchmarking the **Market Readiness** of a company. Many companies are undervalued due to sub-par financial management, poor operational strategies or poor execution of planning, and these gaps can lead to significantly unrealized value and earnings.

So…what exactly is Potential Business Value? It's the unrealized value and earnings that could be achieved by systematic focus on business process improvement. By using more sophisticated financial management, and by creating a detailed plan you can determine how much of your Potential is achievable and over what time. It is possible to take any promising business and identify the factors that will drive increased business value.

The first step in understanding your company's Potential Value is to review your financial information, your core strategies, the strengths of your staff and the ability of the company to perform to plan. You are looking to benchmark your current situation. You need to answer the question: where are you now? And, more importantly, what is the potential value of your business? Business buyers will fight to acquire companies that can demonstrate consistency, solid management, good process and strong profitability. If you can document the strengths and weaknesses of your company you will start to find ways in which your business value can be improved.

Once you have identified areas of improvement and gained an idea of the potential locked in your business, you should lay out a financial strategy for improvement. Is it possible for your business to go beyond its current business goals? What kind of investments will you need to make and what resources might you need to bring on? And what would be the return on investment of doing that? How can you improve profitability, better manage cash flow and improve internal processes. Most important, how can you – the owner – start to disengage from the minding activities that have you working 18 hour days, and that, frankly, unless corrected will cause any serious buyers to pass on your company in the future. You are laying out the process to achieve your retirement goals.

The end game is to create a company with increased business value and better marketability. It's now time to help the company create a leadership position in their market. How can you identify and implement business growth strategies to surpass, outclass and outrival your competitors – resulting in profit maximization and continued business value growth. With a focus on market prominence you can now start to attract the attention of strategic buyers willing to pay a premium for a company like yours.

Whether a business owner uses the powerful data from a **BVI Index™** analysis to build company value over time, or to negotiate with a buyer to get a better offer today, the benefits are substantial. This process can show you how to dramatically increase current earnings and as much as double or triple the value in your company. Hiring an as-needed CFO to guide you is the first step.

B2B CFO® , the world's largest CFO firm, can be your partner and help guide you through the Business Value Improvement process and the Exit Strategy process using techniques and resources unique to our firm.

The terms "**BVI Index™**", "**Market Readiness**" and "**Potential Value**" are all terms owned by BVIresources Group. Use of the BVI Index™ and associated tools and Programs are authorized under a BVI-PM User licensing agreement by Nixon Childs, President, BVIresources Group. More information can be found at www.bviresourcesgroup.com

Business Predictions for 2020

Long range predictions are really quite easy. Rarely does anyone check up on you in ten years, and most of what you predict will not happen. Futurologists always predict the emergence of "space city" and what we actually get are cars that do two more miles per gallon. But it's necessary for a serious blogger to make predictions in order to add to one's gravitas. So here we go…

1. Solar energy development will exponentially grow, according to futurist Ray Kurzweil. Solar Power capacity is now doubling every year to the point that we will be energy independent within 10 to 15 years. This should take care of Global Warming, clean water, and food shortages.

2. Middle East democracy will continue to spread in fits and starts. Iraq will stabilize and flourish, Afghanistan will regain the peace and prosperity it enjoyed for nearly three centuries prior to the Soviet invasion. Tourism, improbably, will flourish as aging boomers once again hit the hippie trail to Kabul – this time riding Harleys (three wheelers).

3. Audiovisual communication will become much more personal. Audio and video will be used as routinely for personal communication as text or images, requiring audiovisual production to become part of the school curriculum and a standard skill in the workplace. Better look into Video Blogging – your LinkedIn profile with ten connections is not going to cut it.

4. Smart phone technology will continue to grow rapidly, and shrink dramatically. Look soon for implantable devices that will reside on the eye. These upgrades will give you a number of options for visible information, flipping from thermal to night vision and back to 'standard' easily, as well as allowing for augmented reality (a scientific term for 24/7 advertising). The technology will be known as **I-Glasses**.

5. Women's fashions will enjoy tremendous growth due to the continuous development of robotic manufacturing technology, which will allow for almost daily complete changes in fashion wardrobe featuring lots of silver metallic fabrics. Dramatic changes in men's fashions will result in business suits with 1/2" wider lapels.

6. Enhanced Reality will create a new way of seeing and interacting with the world. Social networking applications will benefit from apps that will give you personal data ‘tags’ appearing over participating users. That way, as you stroll down the street, you may see someone who is also logged in and above them will be such ‘tweets’ as: “Going out for drinks!” LinkedIn users with less than 10 connections will be flagged for social exclusion.

7. More Americans will move to urban clusters – in part to share resources as cash starved boomers try to maintain living standards, dissolving suburbia and leading to outlying ghettos. Cities will grow rapidly.

8. Microsoft Windows technology will advance to the point that PCs and Laptops will be capable of starting within 5 seconds. (Ok… this one is really out there.)

7 Steps to Cash Flow Management

When it comes to properly managing the cash flow of your business, the best way to move from where you are now to where you want to be is to get a clear picture in your mind of the benefits you will enjoy as you take control of your cash flow.

The benefits include:

- Increasing the likelihood that your business never runs out of cash.
- Eliminating the constant worry associated with not knowing what your cash balance is right now or what you expect it to be next week.
- Improved relationships with your vendors because they are no longer banging on your door demanding that their past due invoices be paid immediately.
- The ability to see cash flow problems long before they can happen.

In short, you free yourself to focus on growing your business rather than fighting the constant cash flow fires.

Here are 7 cash flow rules you can implement immediately that will transform the way you manage your business from this point forward. These rules are the keys to creating a successful and valuable business.

1. **Cash Is King.** It’s important to recognize that cash is what keeps your business alive. Manage it with the care and attention it deserves. It’s very unforgiving if you don’t.
2. **Know the Cash Balance Right Now.** What is your cash balance right now? It’s absolutely critical that you know exactly what your cash balance is. Even the most intelligent and

experienced person will fail if they are making business decisions using inaccurate or incomplete cash balances.

3. **Do Today's Work Today.** The key to keeping an accurate cash balance in your accounting system is to do today's work today – or ensure that your book-keeper stays up to date. When you do this, you will have the numbers you need – when you need them. Produce daily, weekly cash updates – QuickBooks makes it easy.

4. **Don't Manage From the Bank Balance.** The bank balance and the cash balance are two different animals. Rarely will the two ever be the same. Don't make the mistake of confusing them. It's futile (and frustrating) to attempt to manage your cash flow using the bank balance. It's a prescription for failure. You reconcile your bank balance. You don't manage from it.
5. **Know What You Expect the Cash Balance to be Six Months from Now.** What do you expect your cash balance to be six months from now? This question really gets to the heart of whether you are managing your business or whether your business is managing you. Do you have a financial plan with long range cash flow projections?
6. **You Absolutely, Positively Must Have Cash Flow Projections.** Cash flow projections are the key to making wise and profitable business decisions. It's impossible to run your business properly without them.
7. **Eliminate Your Cash Flow Worries So You Are Free to Do What You Do Best – Take Care of Customers and Make More Money.** This is the real key to your success in business. The reason you have to make sure you have the cash flow of your business under control is so you are free to focus all your time and talents where you can make the most difference in your business. You are the Finder.

When you have your cash flow under control, you are free from worry, doubt and concern. You have the cash flow information you need to make sure that everything you do each day in your business is clearly focused on making your business better. You have the information you need to measure your progress using the amount of cash you generate (and keep) for yourself and your business as your ultimate financial measurement.

Taking Financial Control of Your Company

Many small and mid-sized companies have basic accounting systems. They have a book-keeper, maybe a Controller. They have an accounting system – probably QuickBooks, or possibly a more advanced product. What they usually don't have - and what for many is a major weakness – is a coordinated Financial Process. Jim Collins, entrepreneurial author and guru, says there are plenty of great mousetraps but not very many great processes and that's where entrepreneurs should focus. The better process will enable others to build better mousetraps.

A B2B CFO can help you build such a process for financial excellence. Here are the ten key steps to taking financial control of your company.

- Key Metrics – Select some key performance indicators and report daily, weekly and monthly
- Cash Flow Forecast – A weekly forecast of cash will create a strong control discipline and enable you to look forward at least a month.
- Timely Financial Statements – Accurate and timely financial statements are essential for managing results
- Financial Analysis – Carry out a monthly comparative review of financial and other indicators
- Commentary – Prepare a monthly operations overview with suggestion for improvement and strategic development
- Monthly Ops Meeting – Chair a monthly meeting on the financial performance, impact on strategy and implications for change
- Financial Planning – Develop budgets, plans and rolling forecast to manage desired activities
- Cash Management – Build relationships with banks and investors to ensure company cash flow plan materializes Financial Control – Implement process and procedures to deter fraud, improve efficiency and maintain confidence in results
- Financial Systems – Implement and tune best current systems and staff to improve and maintain information flow

Financial Management Makes the Difference

Well managed companies employ many tools to optimize financial performance, some of which can be very sophisticated. However, most of these techniques fall within three key areas: accurate financials, adequate internal control and proactive management.

Invariably, companies that under perform their peers or experience fraud or some other catastrophe will have failed in at least 2 of these categories. And the price of failure can be harsh. Many companies that experience a negative event – such as a fraud perpetrated by an employee or a significant misstatement of their financial statements – may be forced into bankruptcy or may be forced to merge or restructure against their wishes.

So it is wise to review your business operations and determine if you are lacking in these areas. If so, you should take quick, calculated action to supplement the areas of internal control, financial reporting and financial monitoring.

Accurate, detailed financial statements produced in a timely fashion

- Management should ensure that financial statements and management reports are produced in a relatively timely fashion. If your accounting staff cannot produce meaningful reports in a timely fashion or if the information is inconsistent or contains many errors, you could have a serious problem. If erroneous data is being sent to bankers, auditors or joint venture partners, you may lose credibility or may incur financial losses directly attributable to the loss of confidence of your stakeholders – such as the closure of a debt facility. You should ask yourself these questions:
- Is the financial data contained with reports consistent? Does it dovetail with what you know is happening with the business? Does it allow you to exploit new opportunities and control exposures?
- Are you able to answer relatively simple questions such as what has led to an improvement or deterioration in your business over time or what is the biggest contributor to operating profit?

Adequate internal controls including adequate segregation of duties

- Most business fraud is quite simple in nature. Making checks to fictitious vendors or altering such checks are very common. Most fraud results from opportunity and lax supervision.
- Does your business have adequate controls and procedures in place to prevent errors and irregularities?
- Do the proper checks and balances exist so that one employee does not have an undue level of access or control? What controls and procedures are in place to prevent an employee from making an unauthorized disbursement by check or wire transfer? What prevents an employee from setting up a phony vendor or phony employee in your computer system?

Proactive, well informed, inquisitive management

- The most valuable asset to a small business is astute management that asks the right questions, has a strong vision and is able to capitalize on opportunities quickly and efficiently. This type of management will use the solid financial data at their disposal to determine where their business is headed, to change course and/or speed and use all their resources to get to their destination.

- Management will need to be able to "mine" data to determine how the business is doing and why? Which clients are profitable and which are less so? Which products generate the highest gross margin and which contribute little? How are the trends in your business versus competitors of a similar size and make up? How do you position your business for a trade sale and how do you modify your business to give rise to a higher purchase price from an acquirer?
- Management will need timely, reliable financial data produced in a strong control environment to be really successful. Otherwise, you will be making decision and determining a course that might not be the best one.

If your management is not able to be really proactive, to gain the knowledge that they require from management data and to be truly inquisitive, you may be incurring serious exposure due to poor performance in financial management.

The inclusion of a B2B CFO® partner onto your senior team can give you the financial expertise and strategic insight that you need to maximize the performance of your operation. Our partners, who have over 4000 years of cumulative experience, (including significant merger and acquisition related experience), are part of the largest US firm providing services on a part-time basis to closely-held companies with annual revenues of as much as US$75 million.

Funding a Business Acquisition

The credit crunch has led to an increase in seller financing, asset-based lending and alternative sources of capital for buyers.

A recent Inc.Com article on funding business acquisitions notes the huge changes in our financial system over the last 24 months due to the subprime lending crisis and the general economy. This has led to many traditional lenders modifying their lending criteria, and restricting available credit and the flow of capital to many entrepreneurs. Some of the key points in the article:

1. Bank financing of 80% or more with buyer and seller splitting the down payment have now shifted to 50% bank financing, and more seller financing.
2. Alternative lenders have sprouted up, but criteria and conditions can vary a lot, so buyers need to get educated on their options.
3. Deal structure will depend very much on the condition of a company. The type of business being acquired, the valuation of assets and cash flow, perceived market risk as well as

growth plans, are the characteristics that determine which capital sources and financing structure is the most appropriate.

4. For bank financing you will need good credit, strong cash flow and profits and minimal existing debt load. SBA loans now provide up to $5 million.
5. Seller Financing may provide up to 70% funding. Typical terms would be 5 to 7 years with 8 – 10% interest.
6. Asset based lending – on equipment and business assets – can be easier to obtain but you will pay a significant interest penalty.
7. Private Equity may be an option for companies with $2 million plus in net earnings, but it will come with significant conditions and the owner will give up a large chunk of equity.
8. Other options include a mix of debt and equity called Mezzanine financing.

To get the best possible financing terms and improve the likelihood of success in any deal structure, you need to make sure your offering memorandum or business plan is well thought out. Your plan should be based on the combined business operation and not just your current business. It should illustrate how the combined operations will provide more collateral, more cash flow, and greater growth.

Having a professional part-time CFO on your team will help you better understand the economics of an acquisition and convince lenders that you are serious about financial strategy.

What is the true cost of an employee?

Hidden employment costs

As companies start to once again think about maybe, possibly, perhaps starting to hire employees – it makes excellent sense to really understand the true cost of hiring. Whether you are looking for additional assembly line workers, software consultants that will be re-billed out to clients, or high level executive positions the true cost of an employee can be much, much higher than the sticker price. When comparing the cost of hiring vs. temporary or outsourced workers it is essential to use the full loaded employee cost as your basis for comparison. The additional "hidden" costs will vary by company, but are always significant. Think benefits, insurance, computers, phones, office space, lunches, taxes, training, travel, and everything else that goes into an employee.

Trend to outsourcing

A leading trend for growing Georgia companies in the next year will be increased use of outsourced employees at all levels of the business. Although this trend will not help ease recession level unemployment figures, it is emerging as a structural trend across industry. The reasons why more companies are considering outsourcing and subcontracting are many. Cost is a significant reason – with in-house employees carrying overhead burdens of as much as 40-60% or more. What about all the other costs associated with hiring full-time employees? When employees are "on the clock" what are you really paying for? Will you experience notorious time-wasters such as frequent socializing, running personal errands on company time, prolonged Web surfing, late to arrive/early to leave, personal phone calls and emails. How do calculate this cost into the overhead burden?

Professional Service Firms

For software consultants, law firms, engineering and architect firms the fully loaded employee cost is very important. How else can you ensure that you are billing the true cost of your business to clients and making a satisfactory return? Determining an effective overhead load rate is the first step in making sure that a professional service firm is profitable.

Professional Advisors

While many Atlanta companies have hired part-time and temporary workers at the lower experience levels, the trend has now expanded to "C" level employees. Many companies would benefit from the expertise of a seasoned financial manager to help build cash flow and profitability and position the company for growth and value. A full time CFO might cost $150K + in base salary with overhead and bonus pushing their cost way above $200K a year. In contrast a part-time CFO might be hired on a weekly or monthly basis for little more than $12 – $25K. The same logic applies to other expertise that is required consistently but not 24/7.

The world has changed with profound effects for future employment levels. The just in time model of purchasing expertise as needed is more prevalent and useful to growth companies. It is important to compare alternatives correctly. While a consultant's hourly rate may seem "high", once you compare that to the year round cost of an employee you may find it is a bargain. Add to that the benefits a contract employee can bring such as wider experience, no office politics or gossip, no benefits, a can do attitude and a highly professional approach.

Now You're the Boss: The 6 Things Your Boss Shouldn't Teach You

Over my career I have experienced demoralization from certain bosses, and have worked in environments where complete teams and even entire companies were brought down. For those so inclined, I lay out the top 6 techniques for creating a thoroughly demoralized team. These techniques will ensure that your company never reaches its goals, that staff turnover will be in double digits, and that your company value will be squandered. Use them carefully…

1. **Mistakes** – when an employee makes a mistake, make sure they're punished well, point a finger at them, scold them, and get really angry with them for what they did or did not do. Do this in front of other employees, so they will realize they must do a good job all the time in order to avoid punishment. Results: anxiety, depression, risk-avoidance, lack of initiative, more involvement for boss in minding activities.
2. **Demoralize**. Change your mind constantly on what needs to be done. You're the boss, so you can adjust your instructions regularly; tell your people how to do their jobs, establish and maintain an environment where your staff know who's the boss and will always come to you on every decision. Results: confusion, distrust, paranoia, risk avoidance, lack of initiative, more involvement for boss in minding.
3. **Delegation**. Give your people precise instructions on the how and why and when it must be done, and do not allow any negotiation. Let your people be clear that someone superior to them knows best and that questioning authority will limit their career and promotability. Make sure they know that if they work here, they do as they are told, and that they are simply a replaceable set of hands to get the work done. Results: anxiety, depression, anger, bitterness etc.
4. **Instruct.** Give your team brief instructions and an impossible deadline. Tell them it needs to be done in six weeks no matter what, and you'll want an update tomorrow. Results: Anger, depression, confusion, hopelessness, low morale, minding…
5. **Fire at will**. One of your employees is not doing her job, being distracted and casting a black cloud upon the other employees. Don't listen to excuses, or waste time in counseling a previously good employee. Fire her. Don't explain to your employees what happened – they'll just know that you do not tolerate poor work and bad-mouthing and they'll never do it because they fear getting fired. Results: Need you ask…
6. **Conspicuously Consume**. Have the repair bill for your Ferrari faxed to the office fax. Charge the cigarette boat mooring fees to the company for entertainment. Have your book-keeper take care of the Monte Carlo condo bookings. Results: Why do you need to ask…?

It's hard to be a boss, but even harder to be an encouraging leader. Many studies prove a positive correlation between great business results, increasing company value and high employee morale. What's your choice, boss?

A CFO's Advice for Managing Personal Finance

CFOs spend their time helping companies build value and there are many tried and tested ways to build wealth in an organization. Here are 6 ideas from the world of Corporate Finance to help build personal wealth.

1. **Match your Loan to Asset Quality** How can you build wealth? Take a look at your mortgage. Most homeowners take out a 30 year mortgage, but the true cost of making payments over that length of time can be paying nearly two-and-a-half times the purchase price of the home. A 15-year mortgage instead of a 30-year mortgage can potentially save you large sums of money and help you build wealth.
2. **Maintain Internal Controls You** have to be involved in your day-to-day family finances, or you may be putting yourself at risk. If you let your spouse pay the bills and manage the bank accounts, what happens if your spouse dies or becomes seriously ill or if you divorce? Don't turn financial affairs over to a broker or financial consultant without staying informed about investment decisions.
3. **Effective Cost Management** All those coffees and lunches are like small leaks in your wallet. If you're ever going to accumulate wealth, you must control spending leaks. You know what happens when small leaks are left to grow. Continuously review your expenses for potential savings.
4. **A Strategic Plan** Building wealth requires a financial plan. Write down vivid goals like early retirement, paying off your mortgage. You are far more likely to get there if you have a map.
5. **Debt Management** Some debt can help you, but Credit cards are dangerous and you can quickly end up running in place as you pay interest but never bite into principal. A $1200 wardrobe can end up costing you $2,400, but you'll never realize it because the true cost is hidden in your credit card payments. Try to pay cash and stay away from credit card debt if you want to accumulate wealth. Have a 24 hour rule on major purchases – chances are you will decide not to go ahead if you wait a day.
6. **Having an Exit Strategy** It's easy to postpone saving for retirement, but the earlier you start the faster you will accumulate wealth and save for retirement. Consider that the amount you need to save will be much lower if you start now and give your earnings time to

compound. If you're over 40 and you're behind on your retirement savings, you'll have to save much larger sums to ever catch up to where you should be. Start saving early, and save at least 10 to 15% of your income, and you'll be well on your way to accumulating wealth. More than half of all workers will end up cashing out their 401Ks when they change jobs. Still others will take out loans, permanently reducing the retirement fund they could have built up.

Preventing Fraud in Small Companies

Embezzlement is not just happening to rich investors, and is arguably rife in small growth companies. So how do you protect yourself against dishonest employees? If you ever read up on fraud practices, which I do, then you know there are a dizzying array of potential ways you can be ripped off. In turn, the professionals prescribe hundreds of "simple" procedures, controls and protocols to help you head them off.

However, in the real world business owners have limited resources, they have to place trust in individuals, and they need to devote the bulk of their time to growing and building value in their business. So here's a list of fraud checks you can work on right now.

1. **Procedures Manual**: Develop a simple accounting procedures manual that lays out duties, responsibilities, and processes? It does not have to be elaborate, but a published policy makes it harder for employees to disguise bad procedures, or hide transactions.
2. **Oversight**: Practice a regular oversight process to identify potential areas of fraud. Review the customer and vendor lists to check for unknown or similarly listed names; review the monthly payments register and check for large amounts, small regular amounts, unknown vendors etc.: and insist on timely bank reconciliations.
3. **Outsource Payroll**: Use ADP, Paychex or others to do your payroll processing. There is more opportunity for fraud with internal payroll – and it's a waste of book-keeping time. Even worse you will be on the hook if the government goes short to pay for your accountant's second home.
4. **Insist on timely and accurate financial statements**, and have your accountant explain monthly variances in profit margin and overhead amounts. Look at your balance sheet and ask for explanation of Asset and Liability balances with generic names.
5. **Observe the signs**: It's a cliché that the devoted employee who never takes a vacation is likely on the take, but there are other signs you should look for. Signs such as extravagant lifestyle, lots of pay advances, creditor calls at work, unusual changes in habits or behavior, sloppy work habits, more sick time, lots of overtime, evidence of drug, alcohol or family issues. These could all be evidence of personal turmoil leading to fraud.

6. **Credit checks**: run occasional credit checks on key employees – permission should already be on file – and look for changes indicating financial pressure.
7. **HR Policies**: Makes sure employees are aware that fraud is not tolerated and that guilty parties will be prosecuted. Make employees aware that suspicious activity can and should be reported.

If you have an inventory business then there are further measures you may need to take to control high value merchandize and materials. Of course, one of the best investments you can make in protecting your company is to consider hiring a **B2B CFO**®. We can help you quickly build a more fraud-proof organization, and provide the oversight that can help prevent and detect fraudulent activity. Many embezzlement schemes run for years and extort $10s and even $100s of thousands from a company.

I am being audited, now what?

Your bank has requested audited financials, or you are seeking Venture Capital and the VC wants to see audited statements. You have found a buyer for your company – or you are starting to think about an Exit Plan – and need audited statements. So you are being audited and need to know what to do next…

The purpose of an audit is to assess an organizations' accounting practices, procedures, and reporting. A strong audit record is invaluable in persuading organizations to invest funds, loan money, and purchase companies. But audits are a disruptive process. Most small business accounting staffs are very limited, and now they're asked to do more work.

Auditors will require a number of schedules to help confirm figures in the financial statements. Preparing such schedules takes a lot of time because usually it's for areas you only think about once a year, so you always have to stop and think about how you did it last year. Plus, the burden of creating these schedules is on top of your extra workload. When audits exceed their time budgets, tempers start to fray and it can be very stressful for employees unfamiliar with the needs of the auditor. So how can you facilitate a smooth audit?

Preparing for an Audit

1. Preparation – preparing for the audit is a year round occupation. You can't wait until November to begin gathering all the information you'll need for a year-end audit. Developing reconciliation schedules for each major accounting balance will ensure you can justify them at year end.

2. Documentation – keeping reconciliation schedules, meticulous documentation of journal entries, efficient record-keeping will all help speed the process. Making notes on key decisions regarding financial issues is also helpful.
3. Fixed Asset Register – many small companies fail to keep a Fixed Asset register which may involve painful sorting through records to put together a list of company assets and determine correct depreciation schedules. Either make sure your CPA is keeping a record and can give you up to date reports, or start to keep a register using a spreadsheet or software. You will need to identify each asset and the depreciation associated with it.
4. Having a monthly closing process is very helpful. Identify accounts that need to be reconciled each month. For instance, your bank account needs to be reconciled every month. You should be reconciling your salary expense with your payroll report, reconciling your credit card statements to your general ledger account. These are examples of reconciliation that, if done on a monthly basis, make your end-of-year so much easier.
5. First time audits can be especially time consuming. All opening balances will need to be confirmed. Documentation – that may be quite old – will need to be found and researched. Do you have the closing documents for the owned real estate? What about the 401K plan confirming documents? Are your credit rules documented? Do you have evidence that Vendor A agreed to 65 day terms? What are those fixed assets on the schedule called "No name"?
6. Have a planning meeting with your auditor at least six weeks out. Identify any problem areas such as missing documentation, or hard to produce analysis and see if there are alternatives. Review the engagement letter and understand timing and fees – and your responsibilities. Review the client prep list to ensure you can produce the required information. Discuss any changes that might impact the audit – new products, facilities, major customers etc.
7. Immediately after closing the books, produce a comparative trial balance showing this year vs. prior year. Identify variances over 5% and start documenting explanations. This will help you anticipate those areas requiring more work.
8. Internal Controls – You will need to complete a series of checklists that document your internal controls. Ideally work on these a few months out, so that you can identify problem areas. Make sure you have a Financial procedures manual, or bring your existing one up to date.

Benefits of an Audit

Auditors spell out their findings in a report after the on-site audit has been completed. A full audit report contains three main components. It will include an auditor's opinion, then the financial statements, and finally the footnotes – basic information about the company, the accounting principles used, and information a reader of the report will need to understand the financial statements.

The auditor's opinion will state that the financial statements the company is releasing have been reviewed by a CPA and are deemed trustworthy. Along with the auditor's opinion, the auditors will also issue a management comment letter. This is the auditor's recommendation to management of areas of concern and things that could be done better, or which are out of compliance, so they can avoid penalties or assessments. The company should set up a procedure to address those comments or to understand the risk vs. costs of adopting them.

The costs of an audit – both CPA bills and internal time – are considerable. But the benefits of an audit are numerous. Audits can improve a company's efficiency and profitability by helping the management better understand their own working and financial systems. The company's management, as well as shareholders, suppliers and financers, is also assured that the risks in their organization are well understood, and that effective systems are in place to handle them.

Audits can also identify areas in an organization's financial structure that need improvement, and how to implement the proper changes and adjustments. Having an audit also lessens corporate risk and therefore can reduce the cost of capital and funding. An audit can uncover inaccuracies and discrepancies within an organization's records, which may be indications of weak financial organization or even internal fraud, although fraud detection is not the main purpose of an audit.

Bottom Line: as your company grows and becomes more complex, an audit may be required by stakeholders, or may make solid business sense for value creation. Either way, it will involve a lot of planning and call upon skills that may not exist in your company. Fortunately, a B2B CFO has many years' experience in this area and can help your company achieve a clean audit.

My top 5 predictions for business in 2011

It's prediction time again and I am jumping into the crystal ball to see what the year will bring. I have surveyed the web and the predictions of BIG thinkers so you don't have to.

1. Social media will keep growing, following the same path that e-commerce and corporate web sites did. You will no longer be able to say "What's LinkedIn?" without shocking your younger business colleagues.

2. Cloud applications will move to the mainstream as better, more robust applications and widespread web access converge. Small business will see new ERP applications delivered from the cloud.
3. Mobile applications will grow rapidly as enterprises leverage these devices to power the workforce, speed decision making and grow their revenue. More than 49% of small business owners use smartphones, racing ahead of America in smartphone adoption, according to a recent Forrester study. Business owners are tweeting, using GPS services and investing in mobile advertising and texting. This year the wider availability of the iPhone on Verizon will continue to push the move.
4. Real-time business analytics will define and drive the real-time organization. As business intelligence is layered onto the trends of cloud, mobile and social media, it will birth true real-time businesses. Business Intelligence applications – formerly reserved for Fortune 500s – will be available for Intuit Solution's QuickBooks users, helping business owners to manage multiple enterprises from anywhere.

5. Small businesses will increase online marketing spending, with websites taking the front seat, according to a recent survey. Although nearly 60% of businesses have web sites, most are on-line brochures. Smart business owners recognize the need to be found on the web and SEO spending will soar. Upgrades to online presence will increase capabilities for e-commerce, reservation systems, corporate blogs and social media integration.

6. The Economy will not revert to the mid-2000s. Now is the new normal. Many companies will continue to struggle as they try to identify and supply demand for products, Successful companies will focus on cost management, niche markets, social media, government contracts, alternative energy and outsourcing key positions such as part-time CFOs and whole functions such as inventory management.
7. Business Funding will continue to be a struggle as banks recapitalize and focus on strong balance sheet companies. Managing the working capital cycle will be as important as ever, with savvy companies using trend analysis and dashboards to gain incremental improvements in internal funding.
8. Venture Capital firms will be hungry to invest in green business. This trend has the potential to mirror the late 90s when anything "web", no matter how silly, was ripe for investment.
So going green has one more benefit.

Time for Change – Business Practices that no longer work

The US Army, in a series of measures aimed at improving troop fitness, has announced that traditional Bayonet Practice will be dropped, to provide time for more modern exercise and fitness regimes. According to Wikipedia, the advent of modern warfare in the 20th century decreased the bayonet's usefulness, and as early as the American Civil War in 1861 the bayonet was ultimately responsible for less than one percent of battlefield casualties. So…it's probably about time for the US Army to modify its training process.

In business, it is easy to see the same sclerotic approach to time-tested procedures that may no longer have a place in the modern world. It is sometimes easier to carry on doing things, even when more modern, more efficient or cheaper ways of doing things have evolved. My favorite list of activities that are, at least worth a review are:

Payroll – QuickBooks may "make it easy" but it's generally a waste of clerical effort to do it in-house. Payroll is complex and often confusing, carries high risks if nor done correctly, is usually delegated to a low level accounting employee, but it can be outsourced at minimal cost to a range of companies competing for your business.

In House HR – There are various HR options available from PEOs, ASOs and other outsourcing organizations. Sometimes they can save significantly on insurance costs through their bulk purchasing power, but they may also be very useful to mitigate labor risks.

Technology Management – many companies delegate IT management to "Billy Bob" because he is good with autos and really great with video games. Today's complex and ever changing IT environment requires a combination of skills that are not generally found in your average $20 an hour employee – or for that matter your $250 an hour executive who really should be focused on billable work. Server management, firewalls, email directories, software updates and licenses, data backups, web stores etc. are simply too important not to treat as mission critical. The costs of down-time, lost data or security breaches are incalculable. Managed IT is a very competitive business, and such service companies can employ diverse staff with complex skill sets to manage your IT needs. It's worth getting a few quotes and seriously reviewing the cost / benefits of outsourcing.

Accounting Software – Many companies start off with QuickBooks and get very comfortable with its capabilities. Unfortunately, this can lead to inertia and failure to plan for growth. New cloud based and easy set up ERP systems are starting to offer a safe, cost-effective path to next generation accounting systems, and are worth exploring.

Exit Strategy – It's a rare entrepreneur who has given much thought to an Exit Strategy. A simple business sale may be costly, may fail and may damage business prospects if it goes wrong. Exit Planning includes thinking about other options for Exit such as management buyouts, employee shares, private equity purchases and taking the steps now to position the company as an attractive investment.

Receivables Management – I am constantly seeing innovative ideas in this area. Collections automation can include various payment mechanisms, automated collections notices, outsourced receivables management. Funding has gone beyond traditional factoring with a number of new entities such as The Receivables Exchange, FTRANS etc. that combine funding flexibility with management options.

Financial Management – Going beyond QuickBooks and a book-keeper, best of breed companies are exploring new options – such as part-time CFOs to introduce better financial management, being more pro-active about working capital, profitability, planning and cash management.

Space – Office space has never been more affordable, unless you are locked into a pre-recession lease. At the same time the need for space has diminished significantly as options for employees to work out of the office have mushroomed. I see many clients with huge offices, while most of their staff is on the road. Its worth considering a permanent downsize in space needs.

Leading edge business owners are constantly eliminating distractions and gearing up to deal with the challenges of faster change, global markets and fierce competition. Maybe it's time to review those business practices that are holding you back.

Tips for Profit Growth

Many established firms are still struggling with the economy and are not sure if they are winning. Sales might be recovering, but profitability is still down, and cash flow has barely broken even over the last 12 months. They have cut back costs as far as possible, reducing staff, overhead, purchases and even marketing costs, but what comes next. Unless new sales can be more profitable the outlook is bleak. Here are some steps you should be taking now to boost your Sales and Profitability:

1. Number one; understand your real **profitability drivers**. Do you really understand why you made or lost money last month? It is a complex combination of your revenue levels, your fixed and variable expenses, and your product mix of low and high margin customers, jobs or products. If all you have to explain your profitability is a typically inadequate QuickBooks-type P&L listing of revenue and expense items, then you probably don't have a good understanding of your profitability and simply cannot begin to take corrective actions and drive improvement. You **MUST** know your margins by individual product (or service), by product line and by customer, and understand your other profit drivers.
2. Re-calculate all of your overhead rates. In the past year, you have probably trimmed many costs and your materials and services costs have probably changed. In addition, your overhead base (number of machine hours, consulting hours, or service hours, etc.) has also probably dropped. Lower costs mean lower overhead rates. Lower base hours mean higher overhead rates – since you're spreading costs over less "billable time". If you haven't developed overhead rates to really understand the true cost of individual products or services, now is the time. You might be find that you can actually sell at lower prices now and pick up sales volume. Or, you could find that you are losing money with each sale because your costs have not come down in proportion to your "production hours". Note that this analysis applies to service firms as well as manufacturers. Service firms: do you know your hourly cost rates for direct, administrative, and overhead costs?
3. Negotiate hard with vendors and show them how it can actually be good for them. If you can lower your costs and drive more sales, both you and your vendors will benefit. If your vendor won't play ball, then it's time to talk with more new vendors. Check the increases from your vendors against industry price indexes. We found one founder had pushed through three price increases totaling 16%, but the industry index was only up 6%.
4. Review your quoting model. Does it include your new, lower overhead rates and purchase costs? Does it show you your true cost of delivering your product or service? Does it show you the true effect on your company of winning the business? Your quoting model should break out incremental costs and show you what the effect on cash, overheads and profit

from producing or servicing the quoted business. You can't make it up on the volume, but you can dig a deeper hole!

5. Use your new lower cost structure and quoting model to develop pricing strategies to drive new sales, and to evaluate your current business.
6. Analyze and rank your customers using the above tools and an 80/20 analysis. You may find you can reduce more costs by ridding customers that use many resources but don't contribute much.
7. Develop detailed action plans to improve each of your main profitability drivers. Assign an action oriented leader to head a team to analyze and improve each profitability driver and write down the specific goals, tasks, due dates and follow-up dates required to ensure each profitability driver is improved. Set up a KPI (Key Performance Indicator) for each of your profitability drivers and chart its historical values vs. its new target values.

Exit Plan – 9 Ways to Build Value

Exit Planning is something I recommend to all company owners. There are nearly 20 million companies in the US with sales less than $100 million. Over 70% of these are likely to be ready for an ownership transition over the next 10 to 15 years – as the Boomer generation retires. But only 20% of listed businesses actually sell. An Exit Plan can help in several areas: it not only helps an owner decide when and how they will make an exit, it also helps them start to build the value of their business over a set time period. Since all business valuation techniques ultimately center around a multiple of profitability, focus on revenue, profits and cash flow will all help increase business value.

An BNET article by John Warrilow suggests 9 Ways to Make your Business more valuable in 2011. In particular, I like:

1. **Predictable and Increasing Profits**: Increase both profits and the multiple at which your value is created by developing steadily increasing profit margins. This demonstrates to potential acquirors that your business is growth oriented and well managed. Focus on planning, cost control and process improvements will all help to develop continual improvements in profitability. Evaluate vendors and purchasing strategies continually to find extra savings.

2. Diversify your customers: A business that relies on a larger number of customers is considerably more valuable than one that is hostage to one or two large customers. While having Wal-Mart as a customer might seem like a winner, it could spell disaster if that is your only customer.

3. Upgrade and update your website: Marketing collateral and web presence can age rapidly. Your web presence is not only a customer guide, it's also a way potential investors can find you and make evaluations. They will Google you and you should already know what they will find.

4. Develop a predictable, recurring revenue stream: Annuity income, such as subscription or long-term contracts, is viewed more favorably than large one-off contracts. The potential buyer will feel more comfortable with a business that will continue to book revenue, rather than one that may have a few key contracts – maybe even tied to the owner's personal contacts.

Exit Planning should be a continuous process and there are numerous ways you can improve the valuation of your company. A good financial review is a first step to understanding where you should focus.

What can a CFO do for you?

How to create a financial management system

It may not be clear what a CFO does and how they can help companies improve cash, profits and long term business value. The following ten objectives show what a B2B CFO can accomplish in a short time period...

1. **Cash Flow Forecast** – A weekly forecast of cash – out 6 weeks – will create a strong control discipline and enable you to look forward at least a month.
2. **Key Metrics** – What are your 5 key performance indicators? How do you review them and maintain focus each week or month.

3. **Timely Financial Statements** – Accurate and timely financial statements are essential for managing results, and maintaining investor/ bank confidence.

4. **Financial Analysis** – a monthly comparative review of financial and other indicators

5. **Commentary** – a monthly operations overview with suggestion for improvement and strategic development

6. **Monthly Meeting** – Chair a monthly meeting on the financial performance, impact on strategy and implications for change

7. **Financial Planning** – Develop budgets, plans and rolling forecast to manage desired activities

8. **Cash Management** – Build relationships with banks and investors to ensure company cash flow plan is accomplished.

9. **Financial Control** – Implement internal process and procedures to deter fraud, improve efficiency and maintain confidence in results

Articles By Wendy Nelson

5 Tips to Improve Profitability

As you build your business, keep a close eye on profit growth. It's easy to get caught up in the wrong metrics and miss important nuances that could eventually become your downfall. In other words, don't let gross revenue be the only financial metric you focus on.

1. Determine the Gross Margin you need to cover your overhead and establish pricing accordingly. In the beginning, it's tempting to offer discounts to get the business off the ground – revenue at a low margin is better than no revenue at all, right? In reality, If you need 35% for the sale to makes sense, selling your product at 25% will only accelerate cash flow problems
2. Keep a close eye on variable costs. If you establish your pricing in order to achieve a certain margin, and your variable costs increase per item, it won't take long before you no longer earn the margin you need to. Manage variable expenses as a whole and as a % of revenue to ensure your margin stays within an acceptable range.
3. Collect accounts receivable. It doesn't take long for receivables to start aging and they older they get, the harder it will be to collect. In addition, if you have a regular customer who falls behind on payments, the problem could become a whole lot larger than the past due portion of your receivable from them.
4. Manage discretionary spending closely. It can be easier than you would think to escalate into a spending spree. Take a moment to consider the cost/benefit of last minute travel, new (fun) technology, marketing campaigns, etc. before handing over your credit card.
5. Treat your employees like the assets they are. Invest in your team in small ways if cash is tight (see my last post about providing good coffee to your employees).

Articles By Michael Campian

The Services of a Part time CFO in Lake Orion

How can a Part time CFO help you and your business, let me count the ways….

Services related to Key Decision Making

1. In-house preparation of accurate and timely monthly financial statements
2. In-house preparation of monthly budget-to-actual reports
3. Forecasts of income and expenses
4. In-house management report preparation
5. Recommendations on areas for improvement or future growth

Services related to Cash Improvement

6. Forecasts of sources and uses of cash
7. Improve collections of accounts receivable
8. Inventory control and management
9. Recommendations on how to reduce overhead

Services related to Creditors and Lenders

10. Prepare loan packages
11. Prepare business plans
12. Meetings with lenders with or for the owner
13. Assist with workout solutions with creditors

Other services that can be provided

14. Internal control improvement and implementation
15. Advice on computer hardware and software upgrades

16. Supervision and mentoring of the accounting staff
17. Assist in preparing yearly audit workpapers
18. Coordination of tax return preparation with the tax CPA

Articles By Alan Lefkowitz

How Do You Differentiate Yourself From The Competition? It's All About Customer Service

I filled up my car with gas the other day, paying almost $4 dollars a gallon and then paying the attendant who didn't speak English, and who appeared to be doing me a favor by taking my money. I remembered a time when the gas companies promised that if the attendant didn't get to your car in under ten seconds, you'd get a free drinking glass, or if they didn't offer to check your oil, you'd get a free fill-up. My mind drifted further to a time when I could phone a company and a person actually answered the phone, asking something crazy like, "Can I help you?" You didn't have to press a series of buttons, getting automated questions that you weren't paying attention to, and then forgetting what numbers to press. And there it was, the subject of my next article (or is that, my next rant?). What happened to customer service?

As the recession continues (yeah, it's not over yet!), we continue to hear about cost cutting. Every company has to cut costs to survive – that's the mantra. A day doesn't go by where we don't hear about cost cutting. Yet, the companies I am referring to above seem to have forgotten that they are leaving strong impressions on their customers, and not necessarily in a positive way.

We now live in a world where there is an abundance of similar products. New products hit the market and with lightning speed, similar products are on the shelves. A good case in point is the iPad. Within months of being introduced to the market, the iPad has seen competition from Blackberry, Kindle and others. It's often difficult to differentiate one product from another. Companies are faced with a similar dilemma when hiring candidates for jobs. There was a time where a college degree from a reputable university gave the recruit an advantage in the hiring process – not any more. Now, it seems that most candidates have the university degree, not to mention similar resumes, and companies are challenged to find the right candidate. And, candidates are challenged to demonstrate to a potential employer that they are the best candidates for the job.

So, how do you navigate through the abundance of common products or services being offered? Whether you are a buyer or seller of those products or services, you have to differentiate yourself from the competition. And how do you do that? Here are some ways you can differentiate your company or yourself from the competition.

Give Exceptional Customer Service

Customer service is lacking in so many businesses. How many times have you heard someone say something like, "this business would be great if weren't for the damn customers?" Remember that you have no business without your customers and your best business is with your existing customers. You need repeat business and referrals. The only way to keep them and get new customers is exceptional customer service. Meeting customer expectations is not good enough; you have to exceed expectations…every time!

Listen to Your Customers

Really listen to your customers to find out exactly what they want or need. Are you sure your customer feels that your product or service fills their needs? Or do you follow the attitude that says, "if we build it they will come?" That approach generally doesn't work. People are much more selective about how they spend their money. You will differentiate yourself when your customers feel that your product or service meets their needs and they believe that you hear and respond to them.

Add More Value to Your Product or Service

The actual or perceived value of your product or service must be greater than the cost. The corollary to that for a service business is that the customer should feel that you left the place better than you found it. You must find a way to provide the extra benefit, feature or service that excites your customer. If you are a recruit, you must demonstrate how the company will be in a better state (more income, less cost, better decision-making capability, etc.) than it was before you were hired.

Sell Feelings, Not Products

The car companies have understood this for years. They are not telling you about the engine or how the fuel injection system works. They aren't telling you about how the coefficient of drag gives you better gas mileage. They use whatever images they have to use to create the exciting feelings you will feel when get behind the wheel and drive that car. You need to understand that you also are selling feelings. If the customer feels good about your product or the benefits they will get from your product or service, they will not only buy from you, they will buy again and again, *and* they will tell everyone.

Highlight Benefits versus Features

When the door-to-door vacuum cleaner salesman comes to your house and drops dirt on your carpet, you do not care about the wind tunnel technology that makes that vacuum do its job. All you care about is that the vacuum cleaner picks up all the dirt and leaves your carpet spotless. The point is, you must demonstrate to your customers the *benefits* they will receive from your product, service or relationship. The buyer will buy from you when he perceives the benefits you provide and feels great about it.

Become a Specialist

Did you ever notice that everyone in a bank has a title? It seems like everyone is a vice president – first vice president, second vice president, assistant vice president, vice president, senior vice president, and so on. Why is that? Everyone wants to believe that they have the most qualified person and people want to feel that they are working with the best – an expert in their field. But, it takes more than a title. Today, you have to become a specialist. You have to become the "go to" person or company in your field. Obtaining specialized training and certifications helps. Becoming a specialist drives business your way, especially repeat business.

Reduce Risk

People want to know that you stand behind your product or service. If you believe in what you are selling and it provides the value and benefits you are offering, you should be able to stand behind your product. Discounts for fast payments are common and buyers like that, but how about giving a money-back guarantee? A money-back guarantee not only says a lot about your belief in your product or service, but also helps take the risk out of the transaction for the buyer and give them peace of mind. Use customer surveys and then contact your customers in response to their feedback. Contacting your customers and demonstrating that you are making changes to meet their needs is where you differentiate yourself from the competition. Many companies use surveys and then attempt to explain away why the survey response is not valid. They are also differentiating themselves, but not in a good way.

Build a Relationship

In addition to everything mentioned above, investing in your customers or potential customers by building relationships goes a long way toward differentiating your company and yourself. People want to do business with people they like and trust. So, work hard to build relationships. This takes some time and some money but it goes a long way toward building sales, repeat business, and referrals.

Articles By Bill Moore

Small Biz Blogging Mental Roadblocks

I want to kick myself now. It took me 9 months to start blogging. I registered/bought BostonCFO.net in June 2009. I subscribed to and sometimes read other blogs about business, wine, blogging, dad stuff, social media, etc. I got two clients blogging, (one is now a HubSpot customer). So, why did this take me so long? (Maybe, as a father of 6, my best work needs 9 months to develop?) Was I afraid of website technology? Was I afraid of not having much to say? Was I a perfectionist? Let me use this post to "think out loud" about my launching experience as a small business owner blogger and see if it can help another small business owner that may be stuck.

Website Technology: BlogSpot and WordPress have very basic starter blogs where you can start blogging in a couple of minutes, but I wanted mine to look right. Granted I had to register the domain, arrange for a host, figure out how to get the site setup, but there was always help anytime I asked. I decided to use Thesis because of the recommendations for ease of use for SEO and a variety of other reasons that escape me now. So, technology wasn't the problem.

Content: What would I write about? In person, I talk about business, communications, technology, family, stress, startups, etc., but on my blog it had to be perfect. I thought I only had 3-4 things that may be interesting to write about. So, on the Red Line back to Alewife, I put those initial 4 topics in my iPhone notes, and asked what else I might want to talk about. I ended up with 85 topics over the 20 minute ride home. So content wasn't the problem.

Time: I've never considered myself to be a free-flowing creative writer. I am an especially good editor and shaper of ideas though. To me, the writing process included flashbacks to 3AM banging away on an old Smith Corona typewriter back when I first started college. I didn't want to have that burden messing with my work or time. In reality it was just a conscious decision on how best to use my time. I was really questioning my writing skills. I recently switched my bloated e-mail .pst file to my laptop and noted over 5,000 sent e-mails were in there. So my writing skills or time wasn't the problem.

Perfectionism: There are a lot of really good looking blogs out there. How would I compete? But what am I competing in? Why was I blogging to begin with? Yes, I do want this blog to let people know about me and how to work with me, but I also wanted to have an outlet to share what I learn from working with clients, being a dad, a husband, a friend, etc. Since none of those blogs were about how I can relate to the business community around me, I wasn't really competing with them. I just needed to create the blog to add a third dimension to the

@BostonCFO people can get to know on Twitter and other local events. I was already being that person, and it was far from "perfect". Hmm…perfectionism wasn't the problem.

Just Get Started: In the end this blog had been sitting in pieces in my head and my computer. I'd throw it out in conversations every once in a while, but that didn't ever go anywhere. In the Army, I remember being stuck in the air about 25′ on a confidence course. I had climbed a ladder to get up there and now needed to walk 15 feet across wooden beams that were about 18″ away from each other. I couldn't move. That first step was nowhere to be found. A drill sergeant climbed up to ask what my problem was. He said he remembered being stuck on that very obstacle course 5 years earlier with another recruit. He said once he took the first step, he was actually able to walk around up there pretty easily (as he was demonstrating), while the other recruit never did take the step and got sent home. He stood beside me to show me how that first step worked. I took that step, and found I too could walk around up there with ease. And I felt pretty silly for taking so long. I felt the same way today after I finally launched my blog.

Four weeks after my obstacle course epiphany, I was at the Army Parachute School at Ft. Benning, GA standing in the door of a C-130 aircraft about 1/4 mile in the air completely terrified, but yet I took that step and never looked back.

Articles By Brian Christian

Observations from a Part Time CFO for Hire in Oconomowoc, WI

In working with my clients, I have solved several common issues with which they previously struggled. All of them are critically vital to profitable growth and sustainability. The good news is that with focus and accurate analysis they can be rectified. In no particular order, here are five that I see most often:

1. Lack of Timely, Accurate and Meaningful Financial Statements. All business decisions have financial implications. Without basic financial information, it may be a shot in the dark. Many times the financial statements are too old (not timely), the business owner doesn't believe they contain correct information (not accurate) or the financial statements support the preparation of the company's income tax return, and not necessarily the successful running of the business (not operationally meaningful). They usually only become important when the business owner needs to meet with the bank.

2. Lack of Cash Management tools and expertise. As we all know from operating a business, cash is king! It is the common denominator for all businesses, NO CASH = NO BUSINESS. Other than the current cash balance (most of the time determined by looking at the bank's balance) most small businesses don't manage their cash. Cash management includes understanding your business' "operating cycle" (i.e. cash to cash cycle). To improve your "operating cycle" it is imperative you understand what it means, how to calculate it, and what influences it before you can improve it.
3. Poor Pricing Management. Setting the appropriate price of your products or services will drive revenues and just as importantly the "gross margin" for the business. Do you have an accurate assessment of the fixed and variable costs of producing your product? Can you accurately assess your profitability by sales region, customer, product line or service?
4. Lack of Systems & Processes. Processes, whether documented or not, exist in all businesses. It is the way you perform the work necessary to produce your products or services. In most small businesses, the underlying processes to accomplish the work are rarely documented or reviewed as a whole (i.e. system). Developing efficient and effective systems and processes generally reduce costs and/or improve productivity.
5. Too Much Minding and Grinding and Not Enough Finding.
Jerry Mills, founder and CEO of B2B CFO®, developed a simple organizational model for small businesses. He identified the three roles he found in closely held businesses as Finders, Minders and Grinders. Grinders represent the employees whose focus is about today. Minders live in the past; their work is in the administrative, accounting, customer service or warranty departments. True Finders live in the future. They are the visionaries, innovators, and relationship builders. They provide the passion and the drive for the business to grow and succeed and pull the entire company into the future with them.

Have You "Hired" the Right Bank?

Recently I was visiting with a very good commercial lending officer. We were discussing the current economic climate and the trends we both have witnessed lately with respect to commercial and Industrial (C&I) lending.
He made an off-hand comment that I probably did not adequately appreciate at the time, but upon reflection it hit me like a brick!
He said: "I wish potential clients would perform a little due diligence, or at least a half hearted attempt to find out if we are a good fit for their company." He went on: "The deepest questions I get are:

• "How much will you lend me?' and,
• What will it cost me?"

Upon further thought, I had the following considerations:
A typical bookkeeper, office manager, accountant or controller will usually cost a company between $25,000 and $90,000 annually (plus taxes and benefits).
When hiring for these positions, business owners/CEOs and their managers will typically go through many, if not all, of the following steps in search of the "best fit" for their company:

1. Create a detailed job description.
2. Write and place a classified advertisement in a newspaper or post the position on an internet job board.
3. Spend hours sifting through resumes or job applications
4. Spend hours interviewing qualified candidates in multiple rounds of interviews.
5. Spend hours negotiating with multiple candidates.

The above are pretty routine, common place and acceptable steps that businesses take to ensure they hire the most qualified person and maintain their desired culture.
What isn't routine and common place are similar considerations given to what kind of institution they will borrow money from. Considering that the interest incurred on a term loan or line of credit ranging in size of between $500,000 and $1,500,000 will fall roughly into the above annual expense range and last for several years, isn't it appropriate for the business owners/CEOs and their managers to take more steps to determine if they are "hiring" the right lending institution?
It is entirely appropriate for a business owner/CEO to do some self-examination first. A good start is to ask some or all of the following questions:

- What do I want out of my bank besides money?
- Can my internal controls be enhanced with cash management tools? such as:
  Positive pay.
- Dual controls over electronic funds transfers and check signing.
  Investment sweeps of idle funds.
- Automated advances from and principal payments to our line of credit.
- How much time am I willing to spend educating a bank about my business?

- What am I financing today (in terms of assets) and how do I expect that to change over the foreseeable future?
- What kind of growth can I reasonably sustain and how much growth am I comfortable with?
- From an outside perspective, what would someone (a banker) perceive as operational risks?

Almost without fail, I find that bankers are comforted to know that a business owner/CEO has gone through something resembling the above exercise, because it leads to a healthy discussion of the business and the bank's ability to meet its needs. Below is good example:

- What kinds of cash management programs do you offer and how might they benefit my company and strengthen our internal controls over cash?
- What do I have to provide you with so that you are comfortable with, and confident in, our ability to profitably run our business?
- Currently today, we have a term loan on some of our equipment, and a line of credit that finances our accounts receivable and inventory.
- We currently lease our building, but have the right of first refusal to purchase it. Can your bank finance all of this for us or will this be a problem in the future?
- We have historically seen top line revenue growth of 10-15% annually with spikes of up to 20%. Does this present a financing issue for you over the next few years?
- We operate a fleet of trucks that transport petroleum products. As such there is some risk of environmental contamination both on and off-site. We do have internal policies and procedures vetted by our insurance underwriters that mitigate most of it. Do you see this as an issue in obtaining financing through your institution?

Articles By Bruce Peterka

Top 10 Reasons to Plan Your Business Exit in 2011

Long hard hours are what built your business and long hard hours have kept it running. How many more years of your life are you willing to invest in your business? Wouldn't you prefer to reap the rewards of that hard work instead? Let's start with a brief but to the point list of 10 reasons to plan your business exit this year.

1. Like it or not, you are one year older.
2. This recession was either a shot across the bow or it may have hit the boat.
3. The next upswing may be the last one you'll see before you are in your 70's.
4. More than ever, your kids probably don't want the business.
5. Recessions make us realize how much is at risk.
6. Building it back up is a long road, make sure you know how it ends.
7. Banks are back, maybe not forever.
8. Capital gains tax rates are frozen for 2 more years…you can assume they will run with taxes, going up?
9. Life plans have advanced.
10. Resolve to let business challenges be the other guy's problem.

Becoming mentally prepared to exit your business may be harder than you'd expect but starting the process is easy and comforting. Exiting a business that has been built by years of hard work and dedication can be a difficult emotional hurdle. How involved are you in the day to day operations of your business? What will you do with your time when you are no longer running the business? Make a resolution to get prepared for the next stage of your life – this will allow you to think clearly throughout the exit process so that the decisions you make are based on objective criteria instead of the subjective way in which you feel about the exit.

The Family Trap, 5 Pitfalls to Wealth Transfer

Is the transfer of you Family Company going to survive?
Amongst the millions of privately-held businesses in the United States, a large percentage is 'family' businesses. This means that there is more than one generation of a family working in the business. As you, the exiting owner, begin to consider how you and the company will live without the business as it transitions to your children, there are a few key areas where you should focus your attention. This newsletter lists five (5) pitfalls that you should avoid when planning your family business succession.

It is helpful to begin with a few statistics illustrating how often family businesses are trapped within these pitfalls. Namely, less than one-third of family-owned businesses survive the transition from the first generation of ownership to the second – and only 13 percent of family businesses remain in the family over 60 years.

Why such challenging longevity statistics? It could be in part to the added challenges that come with running a family owned business or, quite possibly, the many hurdles that can come with succession of that business. Given the importance of the business to the families involved – including your family members, the employees, the management team and your community, it is worthwhile to review this list of pitfalls and incorporate these ideas and plans for greater success in your overall exit planning. The five (5) pitfalls are as follows:

1. Transferring when the parents are not financially ready
2. Transferring before the parents are mentally ready
3. Transferring to children who do not know how to run a business
4. Not taking advantage of gifting opportunities
5. Failing to Document the Terms of the Agreement in Writing

Concluding Thoughts

These five (5) pitfalls should be addressed and avoided when building a plan for your exit and your family business transition. Careful planning can lead to more successful outcomes when you navigate these pitfalls and continually build, update and refine the plans for your family business succession.

Articles By Charles Sonneborn

How to get cash out of your business

How to Get Cash WITHOUT Going to the Bank a/k/a Managing Accounts Receivable

Every business needs cash in order to be successful. When times are good, cash (along with many other important metrics) can be forgotten and overlooked. When times are bad, the individual entrepreneur, small business as well as Fortune 100 Companies (yes, even the auto industry) are in critical need of it. The first thought of small and emerging businesses is to rush to their bank and utilize existing lines of credit or request increases. Unfortunately, this is usually the worst time to approach your banker. Many business owners overlook a valuable asset that can generate some very positive cash flow when managed properly. That asset is their ACCOUNTS RECEIVABLE! The management of Accounts Receivable is often neglected until the business is in desperate times. A good A/R program must be instituted when the business first begins to generate Receivables. The components that need to be developed and maintained are:

1. Establish written credit policies and procedures that not only establish your expected days for collection, but detail what actions need to be taken when a customer falls outside these parameters (i.e. Customer goes over credit limit, Customer exceeds payment terms, Customer bounces a check, significant change in Customer's credit report, etc.).

2. Identify someone in the organization (i.e. Credit Manager) who will be responsible and have accountability for making credit and collection decisions and take subsequent actions for proper and timely notifications to delinquent customers. This person should NOT be someone in the company who also has Sales responsibilities. This would be a conflict of interest.

3. Be sure there is adequate computer software to accurately track the Receivables and print meaningful Aging reports. These reports must be run regularly (typically monthly or even weekly depending on the business cycle). The Credit Manager should note, on the reports, all actions taken for past due accounts. It is also advisable for the Owner or applicable Executive to have regular meetings with the Credit Manager and review the status of open accounts.

4. Have all customers, prior to being sold/serviced, complete a Credit Application that will be reviewed and approved by the person who has accountability for Receivables. This document could become invaluable if legal proceedings need to be taken and provides accuracy in initially establishing the customer's name, address, etc. The document should also require a personal guarantee from the Customer's owner. This form should be reviewed by an attorney prior to putting it in use. If your attorney advises it is ok to ask for the owner's mother's name, address and phone number as it can be very helpful in your collection activities if needed.

5. Subscribe to a credit reporting service (such as Dunn & Bradstreet) so you can obtain pertinent information about your customers prior to shipping/servicing. A copy of the report should be filed along with the Credit Application. Periodic updates to these reports should also be run and reviewed by the Credit Manager. The frequency of these reviews should be included in the Policy/Procedure Manual described above.

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6. All accounting personnel responsible for billing must understand that every invoice needs to be generated and mailed in a timely fashion with the invoice date being the date product was sold or services delivered. It is also a good idea for the expected due date to be printed on the invoice so there are no misunderstandings by the Customer. A delay in the billing function gives the Customer an excuse to pay late. It will also produce an inaccurate Aging report, thereby providing erroneous information to the Credit Mgr and in many cases, the bank.

7. Print and mail a Statement to each Customer periodically. This will allow the Customer to see how much is owed and how many days outstanding the account is. It will also help to protect the integrity of your Receivables in that the Customer will contact you if they feel the balances are incorrect. This is an important function in developing internal controls for your business.

8. Develop a relationship with a reputable collection agency in your area. Don't be afraid to use their services once your internal collection methods have been exhausted. The longer you wait to act, the more difficult it becomes to collect. They will typically charge 15% – 30% of their collections, so be sure you have done everything you can before seeking their assistance.

9. Carefully monitor Customers who consistently take unauthorized deductions. This is an indicator that you have a problem with this account or your billing is not being done correctly. Either way, a red flag needs to be waved.

The collection of your Accounts Receivable should never be ignored or lessened on your priority list. Your customers will eventually respect your tenacity in collecting and will respect you for it. Many times, Customers will delay payments to other Vendors or Suppliers, if they are low on cash, to avert receiving a collection call from you. A well-run Company knows the importance of their Accounts Receivable in good times and bad. As a B2B CFO® partner, I understand the importance of developing sound policies and procedures for Accounts Receivable, and recognize the problems that can occur when they're not being watched. In many companies, the Accounts Receivable is the single most significant asset, and attention to detail may mean the difference between the success and failure of any business. If you believe that your Company would benefit from further discussions regarding your Accounts Receivable policies and procedures, please contact me to set up a meeting.

Articles By Ronald Baker

Key Perfomance Indicators - Working Capitol

Many companies do not have sufficient cash to grow and some battle every day for cash to survive.

If you want to improve something, you have to manage it. I believe to properly manage something, you have to measure it to determine if you are making progress and to understand where you stand with your competitors and your industry.

In my work with companies, we constantly strive to improve our working capital position. Working capital is simply the difference between your current assets and current liabilities. Getting cash through better working capital management is the cheapest capital or cash you'll ever find.

Following are a few of the metrics we use to better manage working capital. Know that any metric may be misleading if you don't understand it or view it in a vacuum.

- Days in Working Capital, defined as (Accounts Receivable + Inventory – Accounts Payable)/(Total Revenue/365)

Days in working capital is the composite number of your dollars in working capital and provides a quick look at how you are performing.

- Days Sales Outstanding (DSO), defined as Accounts Receivable/ (Total Revenue/365).

This metric measures how quick you collect your accounts receivable. A decrease in DSO signifies an improved position, and an increase is deterioration. You should know what your DSO is currently, what it has been in the past, and the trend. Most importantly, you should know why it is high or low and what is causing it to change. It is useful to compare your DSO with your competitors. Best in class performers may have a DSO similar to their payment terms. I.E., if your payment terms are 30 days, DSO of 30 days or so may indicate good performance.

- Days Inventory Outstanding, defined as Inventory/(Total Revenue/365).

A decrease is an improvement, while an increase indicates deterioration in your working capital. It's important to note that too much of a good thing can be bad. For example, if your inventory is too lean you may suffer inventory stock outs which may alienate customers and result in lost sales.

- Days Payable Outstanding (DPO), defined as Accounts Payable/ (Total Revenue/365).

The longer it takes you to pay your vendors the higher the DPO. However, if you constantly stretch your vendors you may lose your standing with them and could suffer less service, higher prices, or even be cut off.

Working capital is very important to all businesses. I have worked with working capital for many years and can likely help you improve your cash position. I have access to databases that help you determine how you stand compared to your industry and your competitors.

Articles By Danny Windsor

7 Steps to More Cash

There are many intangible things in life that business owners value highly. Among them are freedom, having options and peace of mind. Having sufficient cash can assist greatly in obtaining these intangible treasures. Here are seven suggestions to having more cash. As CEO I know that you do not have time but make sure someone in your company is giving sufficient attention to each of these areas.

1. Consistently review and "work" your accounts receivable list. By consistent I mean weekly.

2. Do not pay invoices before they are due unless a cash discount that makes sense is offered for early payment.

3. Keep only the amount of inventory on hand needed to satisfy orders. Know this number and watch it closely.

4. Have a thorough and complete credit check process for all new accounts and collect cash up front for those that are questionable or let your competitors have them.

5. Keep the credit lines with your bank open and expanding if necessary by maintaining a healthy relationship with your banker. Meet your loan covenants and give your banker accurate up-to-date financial statements on a regular basis or when needed.

6. Review and analyze key productivity measures in your business weekly and make corrections timely when goals and standards are not met.

7. As CEO, spend your time on growing your business, maintaining vital relationships with key customers, and planning strategy. If you do not have time for these activities, something is seriously wrong. **Get it fixed now!**

Main Tasks of a CFO

By task I mean the duty or function of a CFO. While a CFO is involved in virtually every aspect of a business, the main tasks can be narrowed to four.

1. The first and most basic function of a CFO is to ensure that the necessary **financial statements** are produced that reflect the **reality** of the business in a **timely** manner. It is

only by knowing the real financial condition of the business that the CEO can then know the weaknesses that exist , the areas of strength, and the next steps necessary for continual improvement.

2. Another important task of the CFO is to **communicate** effectively and **timely** with the CEO, key team members, and critical stakeholders of the company the key financial information needed by each group of people in order to ensure the financial soundness of the business.
3. The CFO must see the **big picture** and be **forward looking**. The CFO must work closely with the CEO to set the strategic direction of the company and produce the forward looking reports such as the business plan, budget, and cash projections that forecast future needs and build reporting systems that enable the company to stay the course.
4. The CFO must use his knowledge and skill set to **minimize risk**. He must ensure that internal controls are implemented that protect the company's assets.

What Does It Take To Win?

I love to play and watch the sport of tennis. Tennis is both a physically and mentally demanding game, particularly singles tennis. It has been compared to boxing without actually hitting someone. There are many factors that come in to play in order to win a tennis match. Recently in *Tennis* magazine, long time coach Nick Bollettieri had an article,"You Win! What does it take to win on a tennis court?"(Bollettieri, 2011). He listed five principles which I believe can be directly applied to winning in business. These are the principles and applications:

1. *"Be steady" or consistent*. Bollettieri emphasized that the player who makes the least unforced errors usually wins, not the one who hits the most winners. In business, companies that consistently focus on the fundamentals win. In *BusinessWeek*, Jack Welch pointed to three fundamental areas of a business that if consistently measured and shown to be strong, would result in a solid company. These areas are customer satisfaction, employee engagement, and cash flow (Welch, 2006).
2. "*Get in shape*". In other words, a tennis player carrying a few extra pounds around on the tennis court will slow down his reaction time and cause the player to lose patience. In business it is absolutely necessary to shed unnecessary expenses to remain in shape, lean and trim. A company that keeps a watchful eye on expenses will improve profits, cash, take advantage of opportunities, and survive tough cycles.
3. *"Do what you do best"*. Some tennis players have a powerful forehand, others a great first serve and still others fantastic net play. How does this apply to business? It means to stick to your core. Ram Charan had this to say during a period of economic uncertainty. "In

every business there is a central set of invaluable assets, including certain customers; people who know technology, operations, or logistics; and in many companies a brand identify that is solid and established. You need to identify the constituents and things that are at the core of your company and protect them from loss or damage during the crisis" (Charan, 2009, p. 35-36).

4. *"Play, don't pray"*. Bollettieri continued, "make things happen on the court, rather than hope that your opponent misses." Companies that win must continually and aggressively market and sell their products or services. If necessary, companies must revise and plan new strategies on an on-going basis, especially since competitors are looking for new ways to gain market share and take away existing customers.
5. *"Have an attitude"*. In other words it takes a mental edge to win a match. Bollettieri mentions pros Rafael Nadal, Lleyton Hewitt, Serena Williams, and Monica Seles as a few examples of players that never give in. In their book, **The Risk Takers**, Renee and Don Martin said there were ten common traits of successful entrepreneurs. One of these traits was they never let adversity or failure defeat them. They refused to stop believing in themselves. They were and are persistent and resilient (Martin, 2010, p. 271-272).

Incorporating these five principles in a business will greatly increase its odds of winning.

* Bollettieri, (2011), *TENNIS* (January/February p. 52-53)

* Welch, Jack and Suzy. (2006), *BusinessWeek* (May 8 p.126)

* Charan, **LEADERSHIP IN THE ERA OF ECONOMIC UNCERTAINITY**

* Martin, Renee and Don. **THE RISK TAKERS**

Why do you need a CFO?

Our firm believes that every company, regardless of its size, needs a CFO. Below are three major reasons why a Chief Financial Officer is an indispensable part of the management team.

1. **Objectivity**- This is perhaps the most valuable reason every company needs a CFO. A CEO needs clear, objective, advice especially when it comes to the financial implications of major decisions. An objective CFO will give that valuable advice to the CEO in all situations.
2. **A Relentless Focus on Cash**- A CFO understands that no cash means no business. A CFO also understands that a shortage of cash needed at critical times will stunt the growth of a business and result in major lost opportunities. A CFO will spend considerable time focusing on future cash flow so the company can take corrective action in advance. A CFO

will build relationships with bankers and other lenders in order to assist the company he serves obtain cash when it is needed.

3. **Financial Information that is Used**- A CFO structures and uses past and current financial information so the CEO can make prudent business decisions. Timely and accurate financial statements are extremely important to every company. However, they only reflect what has already occurred. The real treasure that can be gleaned from this financial information is to know what it tells the CEO in order to make intelligent decisions about things such as product or service pricing, the true break-even sales, or the proper financial goals to set in order to measure success.

Every company can benefit from a CFO and can now afford one as we offer part time CFO services that fit within the budget of a company regardless of its size.

Why I Like Serving The Privately Held and Family Owned Business

Since leaving the corporate world finance area of publicly held companies, my most enjoyable experience has been working with, assisting, and serving the closely held family owned business. I love the challenge of arising every day and thinking of ways to assist these business owners in growing the profitability of their company. There are many reasons for this enthusiasm but let me give you three.

1. *Their motives are pure*. By this I mean they are not trying to play "the earnings game" to impress someone up the corporate ladder. There is no corporate ladder to impress. Instead, I have learned their motives can be such things as building security for their families, giving to charities they believe in, and leaving a legacy that benefits not only their families, but the communities in which they live.
2. *They have a genuine concern for their employees*. These business owners know they would and could not succeed without the loyal dedication of their people. They do not look upon their employees as stepping stones or objects to be used for their personal benefit but instead want their people to succeed and look for ways to help their workforce grow. Howard Schultz, the founder of Starbucks, said it well when he said, "a company can grow without losing its passion and personality but only if it is driven not by profits but by values and people (Hess, 141)."
3. *They deal in reality*. When I meet with these business owners to review" the numbers ", they want the answers to these questions. Where does my company stand in all critical

financial areas? Does this mean we are on track? If not, why not? Where are we headed and why? What can we do now to ensure a solid financial future? As Edward Hess observed in his book, Smart Growth, when answering the question as to why private company CEOs were more aware of and concerned with the risks of growth than public company CEOs," could it have something to do with the fact that private company CEOs have invested their own money in their business and in most cases have invested a significant portion of their wealth (Hess, 138)?"

It is extremely refreshing for me to work with these companies. They are an inspiration and motivate me to strive for excellence in a competitive world.

* Hess, **Smart Growth**

Articles By Jerry Mills

The Top Five Reasons A Business May Fail

There are a number of reasons why a business fails. Below are what I consider to be the Top Five.

1. **Ignoring Your Current Customers**. I was once with a large company that continually spent their energy and time on internal issues and the politics that accompany the in house fighting. They literally ignored their current customers and lost one of their biggest accounts simply from neglect. It was a real eye opener for me. CEOs should be spending quality time consistently with their customers especially the most valuable and largest.
2. **Not Finding New Customers**. Show me a company where the Finder (CEO, leader, visionary) is not spending the majority of their time with current customers and finding new ones and I will show you a company headed for *The Danger Zone* (Mills, 2006 *).*
3. **Financial Statements Are Not Timely And Accurate**. How any company can possibly think it can succeed and win without ever knowing the score is a mystery to me?
4. **No Intense Focus On Cash And Cash Forecasts**. You have heard it before but "Cash Is King". You must know your cash balance daily **AND** what you expect your cash balance to be one, two, or even six months ahead. No cash, no business!

The Company Is Operating Without A Business Or Strategic Plan. Allow me to explain this in a positive way. I once started with a company that at the time had approximately $ 17 million in annual sales. That company put together a well thought out and developed strategic plan that would enable them to grow to $ 100 million in ten years. Guess what the annual sales were ten years later? They literally created the future with their plan and their future became a reality.

Articles By David Casebere

Two Great Strategies that can Lead to Lifetime Success

Congratulations on what you've done with your life. Honestly, my hat is off to you and you have my utmost respect. Just take a moment to reflect on all you have accomplished; family, friends, career, reputation, respect, education and, maybe you've built a business as well. You've done a lot and if you are a business owner, much of your wealth is probably tied up in the business. The key issue for business owners, especially for baby boomers, is that the wealth you have accumulated in your business may not be as easy to convert to cash when you need it as you would like to think. That's a fact. In fact, for many it won't be convertible at all or, if it is, the actual cash realized will fall far short of expectations.

Consider this, there are 22 million private business owners in the U.S. today, 12 million of whom are baby boomers. 70% of those baby boomers will be looking to sell their businesses in the next 10 years or so. Of that number, it is estimated that only 20% will be successful. There are literally trillions of dollars of personal wealth in American companies today that will never be turned into cash! You can significantly increase your chances of beating those odds by following these two suggestions which I'll explain in more detail in a moment:

1) Build your business around a well-defined set of goals and a well-conceived business plan and ensure that your financial processes are sound

2) Plan for the day you will leave (or exit) your business; keeping in mind that for many that day is not a matter of choice. Things happen that are beyond our control. Will you be financially and emotionally ready for that "day"? That's the $64,000 question (Oh, if it were only $64,000!).

Let's talk about these suggestions in a bit more detail;

<u>Build your business to maximize its value</u>

Here are 5 things you can do now to strengthen the value of your business.

1) **Define your business goals and create a well-structured business plan**. These two items are your roadmap to success. Without them the old adage that "failure to plan = planning to fail" is absolutely true. Included in this item is the use of an annual budget to help you track progress.

2) **Ensure that your accounting system is adequate & is being used properly.** This includes ensuring that you have appropriate financial controls in place to mitigate the risk of fraud.

3) **Expect timely, accurate financial statements** from your chief financial person. These should include monthly revenue & expense forecasts, cash flow projections and comparisons to budget.

4) **Formalize a cash management program** to ensure that your company always has the cash it needs. This requires someone who understands the flow of cash in & out of your business.

5) **Define internal processes & procedures & review them annually to eliminate waste**. Many times I have seen processes that have evolved haphazardly over time and are full of tasks that are redundant, don't add value, are counterproductive or can be automated. All represent opportunities to cut costs and give you cash that could be used for better purposes

In attacking the items above you might also want to consider why many businesses won't sell.

- The owner is too involved in the business for it to transition successfully. In other words, there is no business without the current owner. So, if you ARE the business, there may be nothing to sell.
- Keeping family and key employees in the business is more important than selling the business
- Buyers can't achieve financing
- Trends in the economy that work against the transaction
- Unreasonable price expectations of the seller
- Inadequate financial records or records that don't support a sellers price point

If you pay attention to the items mentioned above, you will take a giant step towards building a solid foundation for your business that will maximize its value when the day comes for you to leave.

Start planning for your exit

Planning for the day you leave your business (and all of us will leave our businesses one way or the other) is a process not an event. It often takes years to develop a plan with the help and guidance of a team of advisors each of whom brings a wealth of experience in their respective fields. Who are these advisors? The team could include your attorney, accountant, financial advisor, insurance advisor, mergers & acquisitions advisor, and valuation advisor. And, like any well run team, it also needs a quarterback; someone to ensure that everyone on the team is on the same page and are working in your best interests simultaneously.

The key consideration for the development of an exit strategy is the financial and emotional readiness of the business owner. Imagine a quadrant, if you will, where the vertical axis defines your financial readiness from low to high and the horizontal axis represents your mental readiness to leave the business, again from low to high. For each position on the quadrant there are a range of options that can be employed to help you realize your goals. The higher you are on each scale, the more options will be available to you. So the quarterback's role is to help you reach the optimal point on that scale.

As with your business, begin the exit planning process by defining your personal goals then find an experienced professional who can help you strengthen your business, maximize its value and achieve your personal and business goals. It is never too early to start. Not to be trite but remember that tomorrow never comes. Start today.

Four Sure Fire Ways to Kill a Project and Maybe a Company

I'm not talking about a capital crime, of course, but in some cases it comes pretty close. The mis-management of a project can spell disaster, especially in the world of accounting and finance. If you have ever been involved in the conversion of an accounting system, think about how critical it was to get things done in a very definite sequence and on a tight schedule. Missing a major deadline or activity is expensive because it usually delays subsequent activities and results in a myriad of cost penalties - direct and indirect. Similarly, consider a situation where one company is thinking of acquiring or merging with another. If the project that is commonly called "due diligence" is not carried out flawlessly, the result of the effort could lead to a bad decision and such decisions have literally killed many companies.

So, you may be wondering why a Chief Financial Officer is talking about projects in the first place. Let me explain. Throughout my finance career I have driven a lot of change for my employers and discovered that, over time, I was developing my skill as a project manager. It's an extremely useful skill for CFOs, and all C-level executives for that matter, because it embraces a proven methodology of getting complex things done quickly and efficiently. Here a few examples of high profile projects I have led as a finance executive:

- Consolidated multiple regional accounting centers into one national center
- Coordinated and led corporate acquisitions and mergers
- Prepared companies for external audits
- Created new accounting and finance policies and procedures
- Reviewed and streamlined internal processes to cut costs and improve quality
- Converted accounting systems from one system to another
- Raised working capital from investors and bankers

The list goes on but these are examples of what all CFOs do and they are all projects. You can apply the same thinking to the work done by top executives for operations, marketing, HR, etc... And, because these individuals are ultimately responsible for achieving the strategic goals of a company, they need to be well in tune with the art and science of project management because their success or failure will have a significant impact on the company, good or bad. And, failure to achieve strategic goals will impact the valuation of the company – bad news for investors and owners.

So what are the four sure fire way to kill a project and possibly your company? Here they are. . .

1) Don't take the time to clearly define what it is you want to achieve up front. If you don't know what you want to achieve and share that with others then you will never get there.

2) Don't recognize the unavoidable relationship between scope, resources, and the time frame in which a project must be completed. If you want to add to the initial scope, then there will likely be consequences in terms of cost and/or the time it will take to complete the project. Don't recognize that fact and your project will fail. Similarly, if you want to cut costs, the project will take longer or if you want to get it done sooner, it will cost more.

3) Don't define roles and relationships and don't hold people accountable for performing their assigned tasks on time.

4) Don't expect regular (weekly) feedback from project managers on the status of their assigned projects and don't ask them to ask you for help when they need it. In this case, ignorance of what's happening on a project is definitely NOT bliss.

Of course, the ticket to success in achieving your company's strategic goals is to recognize and embrace the science and methodology of project management and do exactly the opposite of what I described above. By doing so you will save time, money and possibly your company.

Articles By David Buslee

Goal Setting Mistakes Most People Make

You never know where you may get a great idea, or great, action provoking insight. This is an article from a blog on Interior Design – but very apropos to everyone this time of year. It was written by Gail Doby, ASID.

Goal Setting Mistakes Most People Make -

It's that time again, when most of us are thinking about setting goals for 2011…and most of us won't accomplish them. Why is that?

We get excited and create those New Year's resolutions or goals, and within days, we stop working on what we know we want to do…or do we really truly want those goals?

If you don't have a blank journal so you can create your own Goal Journal, go purchase one at the office supply or bookstore. It is one of the keys to your success in 2011. (That's a step toward a goal)

Why don't we accomplish our goals? Let's look at some of the top reasons:

1. We set too many goals. It's like going to a buffet. If you see all of this food and put it all on your plate, you'll eat too much, and yet, not get what you need. Or, you'll eat a small portion and quit. Why do we do this? We want to make some significant changes, but we don't have a realistic expectation about how long things will take. So…when you set those goals for yourself, be sure to include a time estimate for each of those to be completed. Realistically, you can only do one thing at a time. Focus is the key to success. Strategies:
Set one – three goals per month
Estimate time to be completed
Set an end date for completion

2. We fight our own subconscious belief systems. We may not believe we're worthy of the success that reaching that goal will mean. If your internal beliefs aren't in synch with the goal that you've set, you'll self-sabotage and then feel even worse that you didn't accomplish your goals.

When you set goals, identify the beliefs you must have to achieve those goals.
Evaluate whether your real true core belief about yourself is aligned with the beliefs you must have to accomplish those goals.
Identify what steps you must take to change your beliefs that you are worthy of those goals and release them so you can make that change.
Identify the negative beliefs you have that are in the way of the right mindset to achieve your goals. Perhaps you don't see yourself being the success your goals say you want to achieve.
Define what it would mean to you to accomplish those goals.

3. We don't write down the steps and resources we need to achieve those goals. Just writing down a goal without the steps almost ensures that we are writing down a dream and not a goal.

Take one piece of paper per goal and write down the step that needs to be done right before achieving that goal, and then the step before that, and the step before that. Before you know it, you have a complete plan.
Do you personally need to do each of those steps, or can you enlist help to accomplish those goals through barter, hiring someone who is better at it than you are, etc.? Write down who you can get to help you and what tools you need to assist you.
Schedule the actions on your calendar.
Take action.

4. We're not accountable to others or ourselves. It's easy to let ourselves not follow through.

Get into a mastermind group and make it a requirement that every week, you set accountability and you at least get a friendly kick if you don't get the task done.
Remember that if you don't take the accountability to yourself seriously, you'll get less accomplished. Don't make a goal or promise to yourself unless you're willing to keep it.

5. We set goals that don't mean anything to us personally. If you're doing something to please others, you're likely to disappoint yourself.

Only set goals that you are committed to do because they fit with your personal values. If they don't fit your personal values, then don't commit to them.
Setting a goal to lose weight because we want to be more attractive to our mate or prospective partner won't keep us on task. Do it for yourself because you want to feel healthy, sexy and attractive.

6. We don't cut expenses quickly enough. None of us expected the economy to crash so completely, and if you're still doing the same things you were a few years ago, you could save some money on non-essentials. If you can overcome your own fears and concerns, you'll be even stronger as a person and as a business owner. Now it's important to find your resourcefulness and determination to succeed in spite of it.

What can you do to cut your expenses today and run a more frugal business structure?
Trim non-essential basic expenses. Can you cut your supply costs, your subscriptions or other small expenses? Can you eliminate your fax line and have faxes delivered to your computer? Can you bundle your telephone services?

Don't cut your marketing or education budgets – those are the levers to exponential success.
Keep your expenses low even when business returns to a more normal level.

7. We don't have time and resource contingencies built in. Life happens and when we don't account for the fact that we get colds or the flu, or others need our help with something, or we need an extra cushion in case of emergencies, then we get frustrated and give up on a goal because we didn't allow for that time.

Whatever you set as a goal, allow twice as long to get it accomplished and twice as much money.
Determine your Plan B or Plan C just in case. If you don't get 6 clients, what will you do? How will you achieve your revenue goals?
Set up reserves in your business to help you cover shortfalls.
Think about additional resources you can draw on to meet your adjusted goals when you're not on track to achieve them on time and within the budget you set.

8. We don't remind ourselves about the goals enough. How much is enough?

Create a collage with pictures of how you'll feel when you achieve your goal and what it looks like.
If you're shooting for a dollar goal for your business, create a picture or add color to the graphics of the dollar figure, and add that to your collage. Remember to attach pictures of your family so you connect the earning of the money with what it will do for your family and for yourself.
Include pictures of the rewards. Will you give yourself a day at the spa, or a massage. We think in pictures, so use pictures to motivate yourself and connect with the emotions you'll feel when you achieve what you desire.
Look at these pictures and reminders every day, and be sure to include them on your computer screen or in your Goal Journal (that you're going out to buy today) so you can see what it is you want to achieve and can measure your progress.
You can also scan in a collage of goal achievement pictures and use it as a screen-saver on your computer.

9. We look at goals as a burden and forget to add rewards for the accomplishment.

It doesn't have to be excessive, but take a break and have coffee with a friend, go to the museum for a few hours, take a walk, put extra earnings in a separate fund to purchase a small reward like a great picture frame or massage.
Write down what you're grateful for in your Goal Journal and do it frequently. That in itself is a

great reward for our small accomplishments.
A long journey begins with a single step, so feel great when you take that first step.

10. We feel like a failure if we have setbacks along the way and it can tempt us to give up.

Make a decision that when setbacks arise, that you'll look for an alternative route. Each setback is feedback, and it means we need to take in what we experienced and think about what we learned from it. It's not a reflection of our character.
Be your own best teacher. We all learn more from our mistakes than our successes. Dig deep to figure out what the root cause of the setback is, and how you can avoid the challenge in the future.
If you're repeating the same mistakes, there is a root cause that is the reason, and until you change that, you'll keep doing the same thing.

Use your Goal Journal to record your setbacks so you can figure out how you can overcome them. Also record your progress. That's worthy of appreciation.

You are worthy of great accomplishments and recognition for who you are. Remember that it is more important to do things because they make you feel good than it is to get recognition by others. It's good for your soul to feel that you're worthy and wonderful the way you are.

Articles By Debra Christein

Angel Investor tips

I attended the MIT Enterprise Forum last week on tips for securing Angel Investing – I attended the one in Ann Arbor, MI but there are several around the state held simultaneously and connected virtually – http://alumweb.mit.edu/groups/efgreatlakes .

Some tips that I gleaned are:

- Dilution may seem painful, but a small percentage of something is better than 100% of nothing
- You need a team to grow a company successfully and Angels don't want to see a one-man show
- Don't let your valuation get too high before seeking funding. High valuations can keep Angel Investors away

- Convertible debt in the early rounds can be preferred because it defers the pricing question
- Especially if you are planning a VC round of funding later on, the Angel Investor will prefer preferred debt
- Make sure that your Angels are with you for the long run, that you can approach them for future rounds and they have the staying power for the long haul – you won't have to woo new investors and it also is not a good sign if your original investors are not still in the game
- Ask for enough money to last for a while – you don't want to go back to the well too soon
- Your investor is not interested in providing funds to pay you the salary you made before you quit your corporate job – they want to invest in product or service and they also want to see that you have some skin in the game

Articles By Edward Allon

5 Common Small Business Challenges

In working with small growing entrepreneurial businesses, I have discovered several common financial related issues with which they struggle. When I first start working with these businesses, most if not all of these issues exist. All of them are critical to their success in managing and growing their businesses. The good news is that with time and focus they can be rectified. In no particular order, here are 5 that I see most:

1. Lack of Timely and Accurate Financial Statements

In today's business environment, decisions are made at a fast pace. Information is readily available via the Internet, yet internal financial information to improve the decision-making process is sadly deficient. Most business decisions have financial implications, and without this basic financial information, it may be a shot in the dark. Many times the financial statements are put in a drawer and never reviewed because the information is too old (*not timely*), the business owner doesn't believe the information is correct (*not accurate*) or the financial statements support the preparation of the income tax return, not running the business (*not operational*). They usually only become important when the business owner needs to meet with the bank.

2. No Cash Management

As we all know from operating a business, cash is king! It is the common denominator for all businesses **NO CASH = NO BUSINESS.** Other than the current cash balance (most of the time determined by looking at the bank's balance) most small businesses don't manage their cash. Cash management includes understanding your business's "operating cycle" (i.e. cash to cash cycle). To improve your "operating cycle" it is imperative you understand what it means, how to calculate it, and what influences it before you can improve it. Many times I will ask "what do you expect your cash balance to be in 6 months?" Most of the time they are fighting cash flow problems today and can't think about the future past this week. Managing cash flow will provide a real sense of control over the business.

3. Poor Pricing Management

Setting the price of our products or services will drive revenues and just as importantly the "gross margin" for the business. Unfortunately, not enough time and attention is provided to this aspect of business. In working with small business owners, I find many have not revised their "pricing formulas" for some time, while others don't really know their underlying costs to derive a sales price that provides profit. Many products are market driven because of competition, so it is imperative to know not only the direct costs but all costs necessary to produce a profit. Gross margin analysis by product line, products or customer is critical for small businesses.

4. Lack of Systems & Processes

Processes, whether documented or not, exist in all businesses. It is the way we perform the work necessary to produce our products or services. In most small businesses, the underlying processes to accomplish the work are rarely documented or reviewed as a whole (i.e. system). Developing efficient and effective systems and processes generally reduce costs and/or improve productivity. In businesses where there is a high turnover of people, documented processes are critical for training to ensure employees achieve higher productivity quicker.

5. Minding and Grinding Not Finding

Jerry Mills, founder and CEO of **B2B CFO®**, developed a simplistic organizational model for small businesses. He identified the 3 roles in small business as Finders, Minders and Grinders. Grinders represent the employees whose focus is about today. They generally work in the production side of the business. Most Finders start as Grinders. The Minders live in the past; their work is in the administrative, accounting, customer service or warranty departments. Minders are just as critical as Grinders to the success of the company and must be led. All Finders live in the future. They are the visionaries, innovators, and relationship builders. They are the passion and the drive for the business to grow and succeed.

The entrepreneur is the Finder and must stay in the Finding role. Unfortunately, as businesses grow the Finder gets pulled into the company and works in Minding and Grinding activities. Without a change back to the Finding role, the entrepreneur/small business owner severely limits the business's ability to grow. In working with small business clients, they almost always identify with this organizational model.

As I mentioned at the beginning of this piece, these challenges for the small business owner can be corrected. Most of them are fundamental changes. As with most challenges and the related changes, awareness is the first step.

Articles By Frank J Gnisci

Cash is King

If you own or manage a small business anywhere in the Tampa Bay area you know how important it is to manage cash flow. As business owners we occasionally place too much emphasis on top line sales, gross revenues, or net income and don't spend enough time actually managing cash. Think of it this way, revenue is food, profit is water, and cash is oxygen. Your business will not survive without any of these three components. Remember, cash is always king, particularly in this turbulent economy. Don't fool yourself; we are still in a recession. And during a recession prices fall. And businesses with cash in hand can take strong advantage of this situation.

If cash is king, then managing your cash flow is absolutely critical. So the question is this: What can you do to maximize your cash flow? Increasing your revenue stream and reducing expenses are no brainers with respect to increasing cash flow. Aside from that there are a number of things that you can do.

1. Bill early and often. Invoice your customers or clients as quickly as possible. The sooner that you get invoices out the door the faster you'll receive payment. Many service businesses invoice on a monthly basis. If it is practical, invoicing clients on a weekly basis could substantially increase cash inflows. Look at it this way, the costs that you incurred during the first week of the month would normally be recovered 30-45 days after you send your invoices. That is at least 60 days after the costs were incurred. That recovery period can be reduced to by 15-21 days be invoicing on a weekly basis.

2. Offer payment incentives. Discounts for early or prompt payment should be considered. However, be careful that your customer base doesn't take the discount and still extend the payment. Discounts are a popular marketing tool to encourage clients and customers to pay faster. Many suppliers offer them to improve their cash flow.
3. Consider factoring accounts receivable when traditional bank financing is not an option. Factoring will get you the working capital you need now and increase your cash flow. Typically, 75%-90% can be advanced against the invoice you generate, and the lender will pay you the balance of the invoice, less their fee (typically 2-5%) when your customer pays the invoice in full. Factors are companies that specialize in buying accounts receivable. In exchange, factors pay a discounted value of the receivables to the company selling the receivables. Factoring helps businesses to avoid the loss of business to competitors who seem to have better cash flow to fulfill their business needs. There are several good factoring companies here in the Tampa Bay area and their contracts are negotiable.
4. Accept ACH or Credit Card payments. Offering your customers the ability to pay their invoices via credit card will enhance your cash flow and likely increase your revenues. You get cash almost immediately (minus the credit card processing fees) and your client still gets terms that are more favorable to their cash flow. And because there are thousands of credit card processors in the United States, you are in a position to compare and negotiate processing rates and equipment rental fees.
5. Avoid Slow Pay/No Pay Customers. The best way to avoid cash-flow problems because of customers or businesses not paying you is to weed out those slow pays/no pays out before they become clients. So if someone is about to become a significant client or customer, do your homework. Ask for — and check out – credit references. Call other businesses that have had a relationship with the client. You might even pay for a credit check from an organization such as Experian or Dun & Bradstreet.
6. Barter for goods and services. In this day and age very few businesses conduct bartering. However; you can reduce the impact on your cash flow by acquiring goods and services from clients in exchange for goods and services that you provide.
7. Consolidate your loans. If you have more than one loan related to your business you should review your interest rates and consider consolidating your loans into one loan. Chances are you can get better interest rates and terms that reduce your monthly loan payments, thereby reducing your cash outflow.
8. Pay for fewer business meals and give more gifts. Most small business owners probably don't realize that only 50% of the cost of their business meals is deductible. However; the full amount of any gifts that you give can be expensed. So instead of taking your clients or employees to lunch you can actually positively impact your cash flow by giving them a gift.
9. Have a Cash Flow Model. This can't be stressed enough. Most successful businesses have a cash flow model in place. Typically the model allows them to project their cash flows a year

in advance on a month by month basis. Most businesses update their cash flow model on a weekly basis. Simply by reviewing your cash flow projections on a consistent basis will cause you to give pause to ways to increase top line revenues and bottom line profits.

Companies can also cut dividends, slow or cease stock buybacks, and forgo acquisitions by cash. All of those measures help cash flows, but they don't do a thing for net income. You should be managing your business to generate cash, and if you are successful in doing so, your retained cash flow will improve.

Cash. We Help you Get It.

Articles By Ken Knapik

Top Ten Reasons for Business Owners to Plan their exit

1. Like it or not, you are one year older

Long hard hours are what built your business and long hard hours have kept it running. How many more years of your life are you willing to invest in your business? Wouldn't you prefer to reap the rewards of that hard work instead?

2. This recession was either a shot across the bow or it may have hit the boat.

It is difficult to get a clear picture of how hard this recession has been on small businesses. To get a glimpse, we can look at the increased bankruptcy numbers and the peak unemployment rates. Even if you've kept all your employees and managed to keep your business afloat, we can pretty much guarantee your business isn't what it was four years ago.

3. The next upswing may be the last one you'll see before you are in your 70's.

In real estate, the saying is 'location, location, location'. With business exits, the saying is 'timing, timing, timing'. If we then look to the transfer spectrum chart, it indicates that the next exit 'window' is fast approaching from 2013 to 2018. If you are in your late 50's or early 60's, the window after this one puts you in your 70's. How long will it take you to assemble your plan, your team, align your business and get prepared, both personally and within the business, for your exit?

4. More than ever, your kids probably don't want the business.

Less than one-third of family-owned businesses survive the transition from the first generation of ownership to the second – and only 13 percent of family businesses remain in the family over 60 years. Why such challenging longevity statistics? It could be in part the added challenges that come with running a family owned business or, quite possibly, the many hurdles that can come with succession of that business. Take the time to analyze your exit options to determine which one works best for you as well as for your children. You may be surprised at what you decide.

5. Recessions make us realize how much is at risk.

Most often, the majority of a business owner's wealth is tied to their privately held business. In addition, most of these owners depend upon that business for income, perks, and for the overall maintenance of their lifestyle. You are not alone if this recession has made you realize how much of your financial well-being is at stake in your business.

6. Building it back up is a long road, make sure you know how it ends.

It has been a difficult recession for most business owners. With the glimmer of an economic recovery, now is the time to decide the ultimate direction for your business to make the most of this upturn. Building your company back up is going to take a lot of work, so make sure you are working in the right direction. If you align the growth of your business with your exit option, you'll have a much smoother and more successful transition.

7. Banks are back, but maybe not forever.

The Small Business Jobs Act of 2010 allowed for the creation of a $30 billion fund run by the Treasury Department that is being used to deliver capital to banks with less than $10 billion in assets. The idea is that community banks do the lion's share of lending to small businesses, and pumping capital into them will get money in the hands of small business.* This financial support is something business owners can take advantage of now, but no one knows how long it will last.

8. Capital gains tax rates are frozen for 2 more years.

The recently extended tax cuts have maintained the current maximum tax rate for qualified long-term capital gains and topping out at 15% through December 31, 2012. Without the extension, capital gains were slated to rise to a high of 20% – something that may now occur in 2012**.

9. Life plans have advanced.

Recessions force us to consider our personal priorities. Have you considered your personal goals? What are your conclusions? Is there a life beyond a business? Perhaps you are ready now, more than ever before, to begin enjoying the fruits of your labor in your business by transitioning your focus to your personal life.

10. Resolve to let business challenges be the other guy's problem.

Becoming mentally prepared to exit your business may be harder than you'd expect. Exiting a business that has been built by years of hard work and dedication can be a difficult emotional hurdle. How involved are you in the day to day operations of your business? What will you do with your time when you are no longer running the business? Make a resolution to get prepared for the next stage of your life – this will allow you to think clearly throughout the exit process so that the decisions you make are based on objective criteria instead of the subjective way in which you feel about the exit.

Concluding Thoughts

We hope that these ten (10) reasons got you thinking about planning your exit in 2011. And remember that a proactive approach to exit planning is the best approach.

* CNN money.com, September 16, 2010, Catherine Clifford ** Wall Street Journal, December 17, 2010, Janet Hook & John McKinnon

Articles By Michael Campian

How to Manage a Rapidly Growing Business

While some new business owners face the issue of not enough customers, others face the issue of too many customers/clients. I am sure some of you are saying that is a problem you wish you had but both are serious issues and must be dealt with carefully. There are many lists on how to find new customers. Here is a list of 10 ways to deal with a rapid influx of new customers. The goal is a steady flow of just the right customers.

1. Know the customer that is right for your business

Get really clear about your ideal client or customer so you can be selective when there are too many business opportunities and you do not have time to accept them all.

2. Have a specialty that you are known for

Specialize so that you get really good at what you are doing. You can then service more customers/clients quickly.

3. Eliminate clients who drain you

If a client/customer takes too much of your time, that person is costing you money. Look for ways to predict who will be a time-consuming customer and avoid them. Find ways to eliminate those client/customers.

4. Create systems to support you

Examples are: a good business development system that provides you with the customers or clients you need, a good bookkeeping system to keep track of expenses and revenue, a customer/client tracking system with a database of customers names, addresses, and other useful information.

5. Off load routine tasks to others

What are the repetitive tasks you hate to do but which you know are necessary to run your business? Many administrative tasks are easily taught to a support person and by doing so you make more time in your day to see customers.

6. Leave time in your day for reflection and self-care

Doing the tasks of the business is of course necessary. Many get so focused on their task lists that they never have time to take a strategic look at the business. Putting aside time every week helps you to find more ways to work with the customers you want to. Leave some time too for taking care of you. This means taking time for doctor's appointments, hair care, exercise, meditation and anything else that provides for your health and well-being.

7. Set firm boundaries

Don't allow a client to play on your sympathies and convince you to do something you know you should refuse (i.e. too time consuming, not your specialty and/or for free). Doing favors for others is not a favor to you!

8. Raise fees

If all the customers coming to you are your ideal customers then it is time to raise fees/prices. This will sort the customers that are willing to pay more for your services and those who are not. Revisit your fee/price structure at least once a year.

9. Refer to others

When clients are not your ideal clients or when your ideal client cannot afford your fee, have a list of other business owners to whom you can refer.

10. Hire someone to help you do the work

Once you have off loaded all the repetitive tasks it may become necessary to hire another worker who does the work that you do to work with you. Get professional help for the functions that are not your best, do what it is your strongest skill and get the best of it.

Dispelling Financial Statement Myths

For successful companies, timely and accurate financial statements are the cornerstone of sound financial management. While the information is historical it provides information critical to the management of any business. The meaning of the numbers comes alive through meaningful comparisons and analysis. Yet there are many business owners that miss the opportunity to manage their business because of their belief in certain myths. Here are a few truths behind the misconceptions.

Myth #1: Financial statements are just history – I manage my business forward.

Any business owner that thinks like this doesn't understand the constant loop between financials and the budgeting process. Budgets need to be dynamic, adjusting to changes in goals or results. Planning means understanding how your business will reach these goals.

Historical financial statements must be the bedrock on which your budget/plan is built. While you can prepare your budget independently from the prior year's financials, it's important to bridge the information back, define differences and consistencies and plan accordingly.

It's also important to understand that budgets are worthless without results to compare them to. Comparing actual results to budgets will tell you where you over-performed or under-performed, where you have opportunities or unexpected superior results.

If you don't take the time to compare budget plans to monthly financials, you are letting opportunity pass you by.

Myth #2: I don't really understand my financials, but they seem to keep the bank happy.

Believe it or not, this statement is too common. Obviously, the banking relationship is a critical one, maybe one on which the life of the business heavily relies on. But, why hand financial statements to the banks without understanding how the bank is going to use them? You need to be able to look at your financial statements like a banker.

Business owners need to know the answers to questions such as: What are the points that are critical to the bank? What parts of these statements worry the bank (i.e. losses, excessive leveraging, poor current ratio, inappropriate asset investment)?

Myth #3: My financials indicate I made (or lost) money, but I don't believe it.

Not many business owners say this out loud. It is not responsible to allow disconnect between your perception of your business performance and the reality because there is wonderful knowledge in understanding the difference.

First, your financials are based upon certain assumptions or accounting policies, which may be minor in some businesses and huge in others. These may include depreciation calculations, amortization, bad debt recognition, revenue recognition and tax provision computations, etc. You need to understand these policies and be okay with them. You cannot productively discuss your financials without basic agreement on the appropriateness of these policies, or how these policies are applied.

It's important to understand that profits don't always feel like profits. Profitable businesses can and often do have negative cash flow. A vendor screaming for payments or wondering if you can make next week's payroll doesn't feel like profits. Similarly, cash flow issues can mask losses. Business owners need to learn to understand their cash flow statement, not just profits, and building appropriate plans.

In any case, it's important for you to ask questions about your financial statements and how they impact your business. If you don't understand the answer, keep asking until you do understand.

Articles By Randy Hoffman

10 Ways to Improve Your Chances for Business Success

Today, I begin a series dedicated to providing a bit of financial guidance to the small business community. Over the next few weeks, we'll explore the individual items in our Top 10 list in some detail. In my opinion, our list might look something like this:

1. Develop a Strategic Plan that answers the question, "Where are we going and why?"
2. Develop a set of measurable milestones that support the Plan
3. Develop a Marketing and Sales Plan
4. Develop a Financial Plan
5. Determine how best to support the Plan's operational needs
6. Consider the involvement of an Advisory Board
7. Determine the amount of and arrange necessary funding
8. Adjust staffing levels and insure staff supports your evolving culture
9. Make sure you implement a decision making matrix that supports the concept of decision by fact
10. Reinvest in the business – solidify your future

