

# The New Rules of Finance

Cash management is about much more than managing the money your business brings in. It includes invoicing, collections, forecasting and credit, as well as managing the flow of cash into and out of your business.

These age-old tasks take on new meaning in times of constrained customer budgets, tight credit and limited pricing power. Potentially huge rewards lie ahead for businesses that can streamline processes, take advantage of new tools and act quickly and prudently as spending builds momentum.

This guide provides advice and tips on the new rules of finance. Use it to help improve your cash flow and profits, as well as your odds of obtaining financing in 2010. Sections include:

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## THE NEW RULES OF FINANCE

Today's business environment doesn't allow for any weaknesses in your financial management systems. Entrepreneurs must be on top of their game to make, and grow, profits. You need to know where your money is coming from, collect it on time and stay ahead of the curve on any shortfalls — all while keeping an eye on the future.



### JENNIFER'S HOMEMADE

*Jennifer Behar*  
*Member Since: 2005*

These tips can help you to identify areas to improve your profitability.

### Think Cash Flow

One of the differences between business owners who continually stay in the black and those who don't is a laser focus on cash flow management. Ask any highly successful business owner about his or her tricks, and the majority will be about managing cash flow and maximizing profit. The current economy mandates that you focus your attention on keeping more cash on hand. Better cash flow management can help you meet payroll, reduce dependence on quick collections, absorb price increases and take advantage of opportunities to increase funds, such as offering discounts for faster payment.

Learn more about finances and cash flow in today's economy at [www.openforum.com/money](http://www.openforum.com/money).



**BRING IT IN A BAG**

*Rupa Bihani Shah  
Member Since: 2000*

**Use New Tools**

The demands on business owners have never been greater. Businesses have to promote themselves aggressively, satisfy customers, keep employees productive and review finances like clockwork. The good news is that an abundance of software tools are available for managing finances, from invoicing through tax filing. Smart business owners are taking advantage of these tools to improve accuracy, record-keeping, reporting and analysis, collection timing and many other financial tasks.

**Avoid Risky Prospects**

A customer who pays late — or not at all — can jeopardize your company's finances. Current financial times don't allow for any slow or non-paying customers. Check credit reports on every prospect with whom you are considering doing any significant amount of business. If you have any doubts, talk with their references about their payment histories. Walking away from a potential non-paying customer can be far better than taking the loss.

**Talk Money Upfront**

At the outset of a new customer relationship, it's easy to focus on the excitement of a new project. However, this is the time to discuss payment terms so you can help avoid potential pitfalls. Explain

when you will invoice, for what portion of the total and when you expect payment. Consider staggering your invoicing — for example 1/3 of the total upfront, 1/3 on a project milestone and 1/3 on project completion — so you don't have to carry the entire expense of a project for its duration. And be sure to send invoices as soon as you can; don't wait, for example, until the end of the month to send out all your invoices.

**Have a Cushion**

Sales go up and down, prices change and unanticipated expenses occur — that's business. The way to survive these fluctuations is to have a cash reserve at all times. Most usefully, a cash cushion lets you ride out sudden price spikes or prolonged sales slowdowns. More strategically, a reserve enables you to seize growth opportunities — for example, a good price on inventory, equipment, real estate or even a competitive business. The amount you should keep in your reserve fund varies by business and industry, but you may want to strive for at least twice what you normally keep because companies are taking much longer to pay. You also may want to have a line of credit open with your financial institution.

**Plan Ahead**

Effective cash management requires planning ahead to determine how much money is coming in



**BLUE MARBLE ICE CREAM**

*Jennie Dundas & Alexis Miesen  
Members Since: 2007*

for each time period and what your expenses will be. That way, you can project potential cash shortfalls. This advance planning will provide you with the necessary time to tap financial resources or take steps to free up cash.

### Check Your Pricing

The new economic era requires businesses to be creative about pricing. It's not a great time to raise prices, but it is a good time to consider if they are set correctly. If you are getting price pushback from

customers, this can actually be a good thing — it can mean you are not setting your prices too low. Be sure to check your competitors' pricing to see if you are in the right ballpark.

### Make It Easy for Customers to Pay

Be sure you accept the forms of payment your customers prefer — it may be checks, electronic funds transfer, or credit or debit cards. With the proliferation of payment options, it pays to stay on top of the vehicles your customers want to use. ■

## *Financial Management Trends*

What changes are on the horizon that will affect how you manage your company's finances this year? Here are some trends to be aware of in 2010 and beyond.

- **Improved financial management tools.** Many applications have been introduced, or enhanced, recently to make financial management easier and more effective. In particular, online or hosted applications are now available to help with bookkeeping, project and expense tracking, invoicing, payments and collections, cash management, payroll processing, tax preparation, and reporting and financial projections. These tools can reduce the effort required to manage your finances, and enable you to be more effective by, for example, creating an invoice or accepting a customer payment no matter where you happen to be.
- **Tax incentives.** A proposed jobs-creation program promises tax credits for new hires. It may also introduce or extend incentives for business investment such as tax credits for technology purchases.
- **Increased taxes.** Facing record budget deficits, the federal government may increase taxes. Congress may also impose fees on carbon emissions with the adoption of a cap-and-trade system. Many states and localities are also likely to impose higher taxes and fees, or discontinue incentives, to close budget shortfalls.
- **Increased tax audits.** According to its fiscal year 2009 budget brief, the IRS plans to spend \$168 million and hire 1,600 auditors, collectors and special agents to increase audits of small businesses and the self-employed.<sup>1</sup> In a related effort, the IRS will likely begin certification of tax preparation specialists to improve compliance with tax laws and to increase taxes collected.
- **Retirement plan changes.** The government may enact incentives to encourage retirement savings by both employees and employers. A new retirement plan, the DBk, which combines a pension plan with a 401(k)-like savings plan and has the promise of lower administrative overhead, may be finalized this year.

<sup>1</sup>Internal Revenue Service, *The Budget In Brief, Fiscal Year 2009*.





### *The New Rules of Credit Management*

More than ever before, credit management is a strategic process. Financial institutions are examining companies seeking credit more closely than ever, so updating your approach will help you stay well positioned to apply for the credit you need.

Use this table to assess your credit management strategy and position your company as well as possible in the eyes of financial institutions. (The information provided is intended for directional purposes only; your individual situations may vary.)

<i>Old Practice</i>	<i>New Rule</i>
<ul style="list-style-type: none"> <li>• Pay bills on time.</li> </ul>	<ul style="list-style-type: none"> <li>• Pay bills early, where possible, to maintain or boost your credit score.</li> </ul>
<ul style="list-style-type: none"> <li>• Pay the minimum due on your credit cards.</li> </ul>	<ul style="list-style-type: none"> <li>• Pay your credit cards in full, to maintain or boost your credit score.</li> </ul>
<ul style="list-style-type: none"> <li>• Assume credit terms are status quo.</li> </ul>	<ul style="list-style-type: none"> <li>• Read all communications from your lenders carefully, and understand all changes to your credit terms.</li> </ul>
<ul style="list-style-type: none"> <li>• Review your personal and business credit ratings when applying for credit.</li> </ul>	<ul style="list-style-type: none"> <li>• Review your credit ratings annually, or sooner if you've had a significant financial event occur recently.</li> </ul>
<ul style="list-style-type: none"> <li>• Pay attention to your credit score only when applying for credit.</li> </ul>	<ul style="list-style-type: none"> <li>• Manage your credit score on an ongoing basis to take advantage of potential improvements in lending terms when your score improves.</li> </ul>
<ul style="list-style-type: none"> <li>• Mix business and personal expenses and credit.</li> </ul>	<ul style="list-style-type: none"> <li>• Separate business and personal expenses and credit so accounts remain independent.</li> </ul>
<ul style="list-style-type: none"> <li>• Lenders assess your vendor payment history.</li> </ul>	<ul style="list-style-type: none"> <li>• Lenders assess your vendor payment history and your payment history with other lenders.</li> </ul>
<ul style="list-style-type: none"> <li>• Credit reviews are relatively easy.</li> </ul>	<ul style="list-style-type: none"> <li>• Credit reviews are comprehensive and detailed, involving multiple references.</li> </ul>
<ul style="list-style-type: none"> <li>• Assume the first lender you approach will provide credit.</li> </ul>	<ul style="list-style-type: none"> <li>• Be prepared to apply to several lenders to obtain a loan on the best possible terms.</li> </ul>
<ul style="list-style-type: none"> <li>• Rely exclusively on banks for credit.</li> </ul>	<ul style="list-style-type: none"> <li>• Investigate trade credit or lending sites like Prosper.com® or LendingClub.com®.</li> </ul>



### *The New Rules of Cash Flow*

Business is moving at an increasingly faster pace. Opportunities arise and disappear at lightning speed, and the business owners with cash on hand to seize them will win. Effective cash flow management requires a proactive stance and vigilant adherence to systems.

Review your approach to managing cash flow to be sure your company is as well positioned as possible to survive a cash crunch and to maximize profitability. (The information provided is intended for directional purposes only; your individual situations may vary.)

<i>Old Practice</i>	<i>New Rule</i>
<ul style="list-style-type: none"> <li>• Invoice occasionally, or only at the end of the month.</li> </ul>	<ul style="list-style-type: none"> <li>• Invoice each project or client as soon as possible, or as often as is feasible, based on an agreed-upon schedule.</li> </ul>
<ul style="list-style-type: none"> <li>• Offer net thirty terms.</li> </ul>	<ul style="list-style-type: none"> <li>• Offer discounts for early payment. For example, a 2% discount is common for payments made within 10 days.</li> </ul>
<ul style="list-style-type: none"> <li>• Keep invoicing and collections in house.</li> </ul>	<ul style="list-style-type: none"> <li>• Use tools or outside resources to create invoices, conduct collections and pay vendors.</li> </ul>
<ul style="list-style-type: none"> <li>• Assume all prospects are creditworthy.</li> </ul>	<ul style="list-style-type: none"> <li>• Check credit and references on anyone to whom you're considering extending trade credit.</li> </ul>
<ul style="list-style-type: none"> <li>• Keep enough cash on hand to cover short-term needs; for example next month's bills.</li> </ul>	<ul style="list-style-type: none"> <li>• Keep enough cash on hand to survive a prolonged sales slowdown; for example three months' expenses.</li> </ul>
<ul style="list-style-type: none"> <li>• Keep financial difficulties under wraps.</li> </ul>	<ul style="list-style-type: none"> <li>• Communicate with vendors and lenders about cash crunches to work out payment terms.</li> </ul>
<ul style="list-style-type: none"> <li>• Focus on one large customer, or customers in one industry.</li> </ul>	<ul style="list-style-type: none"> <li>• Diversify your customer base so you're not dependent on any one company (or industry), in case it has financial difficulties.</li> </ul>
<ul style="list-style-type: none"> <li>• Focus on selling one-time projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on selling products or services with recurring revenue streams.</li> </ul>
<ul style="list-style-type: none"> <li>• Focus on margin to drive profitability.</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on sales volume to drive profitability.</li> </ul>
<ul style="list-style-type: none"> <li>• Focus on selling only your company's services.</li> </ul>	<ul style="list-style-type: none"> <li>• Partner with complementary vendors to expand your offerings or sales reach.</li> </ul>



# Cardmember Profile: Linda Hamilton, Linda Hamilton CPA, LLC

## Managing Your Finances in the New Economy



Linda Hamilton has more than 20 years of experience in financial accounting and tax preparation. She leads Manhattan-based Linda Hamilton CPA, LLC, and helps emerging businesses and growth companies manage their finances.

Hamilton provided four insights to help entrepreneurs improve their financial health.

### 1. Don't Confuse Profit and Cash Flow

Because of the recession, businesses are more aware of cash flow than they have been for a long time. "People are still pretty scared," Hamilton says. "They have lost a lot of wealth. For business owners, this means keeping a close eye on how their customers spend money, and when they pay their bills."

In particular, businesses should make sure they don't confuse profit and cash flow. "Your income statement can show profitability, but you can run out of money because you're not collecting on your receivables," she says.

### 2. Keep an Eye Out for Fraud

For small businesses, Hamilton warns, it's especially critical to have adequate internal controls to help avoid fraud. "In bad economic times, you can see more fraud — both inside and outside the company," she says. "There's no segregation of duties because a lot of small businesses don't have extra employees. The same person writes checks, does account reconciliation and even goes to the bank. There just aren't any controls there."

Even longtime employees should be required to follow checks and balances. Business owners

should open bank statements

themselves and **America Counts on CPAs<sup>®</sup>** look through the withdrawals and transfers to make sure the numbers add up. "It's also a good idea for the bookkeeper to take care of the books and have the secretary go to the bank. The goal is to keep those duties separate," she says.

### 3. Track Key Indicators

To be successful, Hamilton says entrepreneurs need at least a basic knowledge of the numbers on their financial statements. "A business owner who wants to focus on growth can't walk away from that duty," Hamilton says. "They should sit down with their accountant and create a dashboard of five to seven performance indicators so they can plan for the upcoming month."

The information that gets tracked on this dashboard will depend on your business, but Hamilton says it should include items such as cash and profitability, units sold, deals that closed, accounts receivable and even customer satisfaction information. "It's also a good idea to look at past performance, where you are this year compared to last year," she says. "Are your sales up or down for the same period? If there are swings, figure out why."

### 4. Review Financials Regularly

Hamilton says it's essential to review your financial reports at least monthly; for instance, after your bank statements are reconciled. If you can generate the reports easily, weekly is even better. "You don't have to meet with your accountant every

month — do that quarterly or semiannually,” she says. “Look at the numbers compared to last year.”

Once a year, it’s critical to look through all of your financials — right around tax time. “I call it an annual tune-up,” she says. “How did last year actually do once the books closed — not just in terms of revenue, but in terms of profits, average

sales size, number of customers, etc? Then consider how you can use this information as a roadmap to improve your performance next year.” ■

*Connect with Linda Hamilton through her web site, [www.lahcpas.com](http://www.lahcpas.com), or OPEN Forum’s Connectodex, [www.openforum.com/lindahamiltoncpa](http://www.openforum.com/lindahamiltoncpa).*

### *Financial Management Resources*

Need help managing your finances? You’re not alone — even experienced financial professionals work hard to stay current on changing financial management practices and regulations. These resources provide tips and advice to help you keep more of the money you make.

#### **Count Me In for Women’s Economic Independence\***

[www.makemineamillion.org](http://www.makemineamillion.org)

Count Me In’s mission is to promote economic independence and the growth of women-owned businesses. It offers advice and inspiration for women entrepreneurs seeking to grow their businesses into million-dollar enterprises.

#### **National Federation of Independent Business (NFIB)**

[www.nfib.com/business-resources/finance-and-accounting](http://www.nfib.com/business-resources/finance-and-accounting)

NFIB is a nonprofit, nonpartisan organization that represents small and independent businesses. Its business resources section offers a wealth of information on finance and accounting, as well as other topics.

#### **OPEN Forum®**

[www.openforum.com/money](http://www.openforum.com/money)

OPEN Forum is the online community from American Express OPEN where you’ll find hundreds of articles, videos and discussions about managing small business finances.

#### **SCORE**

[www.score.org](http://www.score.org)

SCORE is the “Counselors to America’s Small Business Owners” and is dedicated to helping small businesses form and grow their companies. Its Women’s Success Blog is updated frequently with practical business and financial management advice.

#### **Small Business Administration (SBA)**

[www.sba.gov](http://www.sba.gov)

The SBA’s Small Business Planner provides a primer on planning, starting, managing and exiting a business.

*\*This organization is a valued Women’s Business Initiative partner of American Express OPEN.*



# Tips to Boost Your Bottom Line

Interview with American Express OPEN's Mary Ann Fitzmaurice Reilly

Mary Ann Fitzmaurice Reilly is Senior Vice President at American Express OPEN. She works closely with business owners, translating business needs into effective tools and incorporating their feedback into the development of features and enhancements to these tools.

In this interview, Reilly offers financial advice for businesses managing in the wake of these challenging financial times.

## How have the past two years and the economy affected how businesses need to act financially?

The economy has increased the importance for business owners to take proactive steps toward building more flexibility and security into their businesses. This may include developing greater oversight of cash flow, establishing access to credit in advance and building strong relationships with financial services providers. As many business owners will tell you, you need to keep a close eye on your cash flow to help avoid surprises.

Establishing access to credit, even though it may not be currently needed, can help when surprises arise. Be proactive in building close relationships with your financial services providers by letting them know in advance of changes that may affect your business.

## Why should business owners take a more active stance toward invoicing? Why is cash flow so important?

From the fall 2009 results of the American Express OPEN® Small Business Monitor survey, we know that 60% of the entrepreneurs surveyed were experiencing cash flow issues and that their biggest

cash flow concern was the ability to pay bills on time. In a down economy, customers can take longer to pay you, which can lead to cash flow issues.

I've heard from many business owners that issues with timely invoicing and collections has been at the heart of their cash flow problems. So making it easier for your customers to pay their invoices can help you get paid faster.

## What can business owners do to help manage cash flow better?

An automated invoicing and receivables solution like OPEN's AcceptPay ([www.acceptpay.com](http://www.acceptpay.com)) program can help. With AcceptPay, you are able to create and email invoices, which can cut down on time and costs, and even establish automated billing and withdrawals from customers' accounts.

AcceptPay also allows you to accept electronic payments via a credit card or ACH (e-check), in addition to paper cash or check. This will not only become critical as more businesses move toward electronic payments, it could also be a selling point to potential customers who may appreciate having that option. It also benefits your business by providing cash quickly and limiting your exposure to late payments.

## How can you reassess your current offerings to better maximize revenue?

Several strategies — adjusting pricing, increasing production efficiencies or becoming more focused on what you offer — can help you maximize revenue, but these are very individualized areas. Rather than try to offer a “one size fits all” answer for your products or services, I suggest looking at a general



area you might not have previously considered — reassessing your customer profitability.

Look at which customers generate profit for you and which ones may actually cost you money. Then, choose where to invest more of your resources. Focusing on your most profitable customers can help you strengthen those relationships and identify cross-sell and up-sell opportunities that can help your bottom line.

**What advice would you give a current business owner in this economic climate?**

I think the best people to answer your business questions are other business owners. That was our thinking behind OPEN Forum®, the online community we developed to give business owners a place to find information and share insights. You may also want to look at other opportunities to network with other business owners, such as through organizations like Women in Public Policy (WIPP), SCORE®, or your local chambers of commerce.

By connecting with your peers — in person or online — you may be able to find new ideas and tips for how to maximize your revenue and move your business forward. ■

## VISIT OPEN FORUM

You can find articles on finance and a range of other business topics on [www.openforum.com](http://www.openforum.com), the online community from American Express OPEN designed to give business owners information and insights that can help them build their businesses. There are articles by business experts such as:

- Guy Kawasaki of Alltop®
- John Jantsch of Duct Tape Marketing
- Anita Campbell of Small Business Trends
- Henry Blodget of The Business Insider
- Adam Ostrow of Mashable
- And more ...

In addition to these articles and discussions, Cardmembers can create a profile and connect with other business owners in the Connectodex<sup>SM</sup>, giving them an opportunity to build exposure for their companies.

Twitter users are invited to follow @openforum for the latest headlines from OPEN Forum. You can also nominate yourself for OPEN Forum Pulse<sup>SM</sup>, which brings together the Twitter feeds of some of the most-followed business owners and industry leaders, by visiting <http://pulse.openforum.com>.

## SHARE YOUR STORY

Do you have a story about managing the finances of your small business? Do you have a tip that can help other entrepreneurs improve their financial management processes, or their profitability? Share it with us by sending an email to [newrules@openforum.com](mailto:newrules@openforum.com).

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For more OPEN Insight Guides, and other resources to help you grow your business, visit [www.openforum.com](http://www.openforum.com)