

SAVVY SPENDING

KNOWING HOW TO AVOID COMMON FINANCIAL PITFALLS CAN NOT ONLY PROTECT YOUR FLEDGLING OPERATION BUT ALSO PROPEL YOU TOWARD LONG-TERM SUCCESS.

By Kimberly Sterling and Kathryn L. Ennis

Starting a small business can be an exciting and lucrative adventure. Unfortunately, the current startup market is both unforgiving and fraught with unanticipated dangers.

When it comes to small business failure rates, sobering statistics abound. On average, fewer than five out of 10 survive beyond the first five years.

Despite the doom and gloom, by educating and preparing yourself to make the appropriate financial decisions — many of which won't be easy — you can mitigate potential hazards and give your new business endeavor a real chance.

Cash Flow Is King

For small businesses, nothing is more important than having adequate capital at each stage of development. Many promising businesses shut down prematurely because business owners take on too much debt or underestimate capital requirements. The best plan is to be conservative with financial projections and be sure to have enough funds (including personal savings) to cover all costs.

Another important consideration is to have a viable accounting system to track your business finances. The system should enable you to answer the following questions effectively and efficiently:

- Are expenses rising faster than sales?
- Is one product more profitable or better selling than another?
- How much do you need to sell to meet expenses each month?
- Can you take a paycheck this month?

The answers lie in the numbers; understand them, and you can manage your cash flow effectively.

Don't Work for Free

As the operator of a small business, you must extend credit to customers on competitive terms to make sales. Concurrently, you must not let accounts become long overdue to avoid tying up your capital and having accounts become uncollectible. Your goal: Collect money as fast as you can. If you're too soft on your customers, your cash flow will suffer.

To avoid this, practice the following:

- Check the financial health of each new customer before extending credit.
- Ask new customers for business references — and call them.
- Check new customers' Dun & Bradstreet credit ratings.
- Speed up customer orders by having them faxed.
- Send out invoices the same day goods are shipped, not a week or two later.
- State on invoices the date on which payment is due and the penalty interest that will be charged for late payment.
- Follow up on late payers with phone calls and letters.

Remember that bad debts can sink your business. Be vigilant and try to get at least periodic payments from slow payers or require advance payments or COD for questionable credit risks. And if clients aren't paying, stop working for them.

Snares and Snags

Running a small business can be like navigating a mine field — something is always popping up that requires skillful maneuvering. Other fiscal oversights and afterthoughts that can come back to plague you include these:

- Not "stress testing" your budget. When

you create your budget, it's important that you run through analyses from a financial perspective. Identify potential threats to your business. (For example, what if your product becomes obsolete or your revenue drops by 20 percent?) Going through these exercises helps you to recognize drawbacks and diversify your product line and/or clients types when necessary.

- Thinking only in terms of growth. Trying to force growth every year can distract you from the purposeful intent of your company. Make sure to stay true to your unique selling position, and don't forget your company's true character. Rapid growth without preparation can undermine operations and eventually damage your bottom line.

- Buying vs. renting. Small business owners often feel they're throwing money away on renting space. However, once you own a building, "money pit" traps arise, including several tax complexities and maintenance headaches. Renting offers young companies flexibility, and the money you don't spend on a mortgage and related expenses can be put toward maintaining a positive cash flow.

- Neglecting your "bulls-eye" clients. As small businesses evolve, most serve certain niche clientele. It's important to be able to recognize, develop and serve these customers to grow your business. Consistently satisfying your target audience creates stability in both company morale and sales.

- Hiring "yes" people. The best entrepreneurs aren't afraid of criticism and being told what they may not want to hear. Hire employees or outside professionals who will interact and engage with you as opposed to simply performing a

business function. If you're about to make a huge financial blunder, you want somebody at the conference table who will call you on it without flinching.

- Not keeping the lid on the cookie jar. In an environment where corporate mismanagement is disturbingly common, it's vital to maintain control of your financials. One way or another, you must stay engaged in the process. If you hire accountants or bookkeepers, make sure to check their references and put controls in place that will both detect and deter fraudulent behavior. Stay involved in this aspect of your business by reviewing and approving work performed in these functions.

- Forgetting tax-compliance responsibilities. Payroll tax and sales tax compliance are critical to businesses, and falling behind in compliance or payment of these obligations can lead to extensive problems. Before starting any business, you must understand these responsibilities and be prepared to meet them.

As an entrepreneur, you should be confident and excited about creating a business and following your dreams, but also be savvy enough to recognize the various financial pitfalls that sabotage many of these endeavors. If you stay focused and discerning, you can beat the odds and watch your business grow and prosper.

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