

The Importance of Financial Clarity: Back to the Fundamentals



By Ted Rose

During troubled times, business owners should feel comfortable in turning to their CPAs for insights into how to avoid missteps and protect their businesses and investments. The recent credit crisis is just a reminder of the importance and benefits of having a sound strategy that you can use to navigate through turbulent times. Contact your CPA for objective guidance in helping you make intelligent financial decisions for the future of your business. In the meantime, listed below are some tips to help you assess your current financial condition and start rethinking your business plan to face the current economic challenges.

1. **Remain calm.** It's difficult to make sound decisions if you panic. To get a better sense of where you stand, begin by reviewing your cash position and anticipated cash needs. Are they in line with your business's short-term needs, goals, and risk tolerance? Contact your good customers. Find out how the market is affecting them and utilize this information in your planning. Casual discussions can provide you good insight and may even lead to new business opportunities.
2. **Take a fresh look at your monthly income and expenses.** Have you been meeting your budgeted projections? How much of a drop in revenues can your business withstand and for how long? What are your cash-flow needs for the next 90 to 180 days? Do you have sufficient cash reserves for the next 30 to 60 days?
3. **Come up with a plan NOW** to respond to potential future declines in revenues, before they actually occur. Re-think your business strategies and update projections. Review your product and service lines to identify the most profitable items and determine how to leverage them for future growth in profits.
4. **Analyze your expenses** and determine which ones can be controlled. Can you reduce spending in any areas to put less of a burden on your cash-flow needs? As necessary, communicate to staff and team members about the need to tighten spending. If you are a manufacturer, review inventory management practices. Are there opportunities to reduce your on-hand inventory? Service companies should make sure they're capturing all their billable hours and invoicing promptly. Have you billed all your contractual items? How about all your pass-through expenses, such as billable third-party services and travel and living expenses? Consider ways to pass along increased costs (i.e., fuel expense) on to your customers.
5. **Calm your employees' fears** about how this crisis will affect the company, their jobs, and their retirement or other benefit plans. Speculation and gossip are counterproductive, so it's better to address their concerns directly.
6. **Refocus on your balance sheet** and how much credit you are extending to your customers. Make sure you watch your accounts receivable carefully. Look for new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine whether credit constraints or an economic slowdown will affect their ability to pay you. Keep your receivables aging up to date daily if possible.
7. **Manage accounts payable more closely.** Forfeiting early pay discounts may be more advantageous in preserving cash that may be needed for critical items. Keep payables aging up to date at all times. It's an important tool for managing cash flow. If your credit lines with vendors are frozen or at their maximum limits, consider meeting with vendors and working out a schedule of partial payments that would allow continued delivery of critical materials and supplies.
8. **Check with your lenders on the status of your credit lines.** Are you in compliance with their terms? Will your bank renew their commitments at similar amounts, rates, and terms? Consider reducing your reliance on credit by disciplining your spending. If necessary, look into alternative types of financing. Some sources to be considered are loans on retirement plans or life insurance policies, loans from key customers that rely on your business for their materials and supplies, asset based lenders or "Factors," local development agencies, or the U.S. Small Business Administration.
9. **Check the safety of any cash deposits you have.** On October

3, 2008, the FDIC deposit insurance was temporarily raised from \$100,000 to \$250,000 per depositor through December 31, 2009. If you have more than \$250,000 in any one bank, move the excess to another FDIC insured bank. Consider investments such as CDARs (Certificates of Deposit Account Registry) to spread the risk of short- to medium-term cash you may have invested in CDs. Make sure your cash and investment portfolio is diversified and in accordance with your risk tolerance.

10. Review all your insurance coverage, particularly any from companies with weak balance sheets. Be careful not to surrender a policy, as securing new coverage might require underwriting that can affect your coverage.

11. Finally, remain focused on your own advantages. Remember that small businesses have greater flexibility and can more easily adjust to changes in the economy than their larger counterparts. Small business owners can use the recent crisis as an opportunity to buckle down, refocus, assess, and make their company more financially sound, disciplined and less reliant on credit.

During tough times, it's important to maintain communication with your CPA firm, your trusted adviser. Remember that you are not alone. CPAs know and understand your business and the challenges you face, and we can work with you to navigate these turbulent times. We can help you gauge your current situation in the wake of recent market events and create a sound business plan in response. Contact your CPA today for expert advice on how to maintain your company's success.

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