

MANAGING THE FINANCES

First, get yourself Quicken software (Intuit Software). This is the greatest financial management tool imaginable and very easy to use. You can customize it to virtually any small business and especially service businesses.

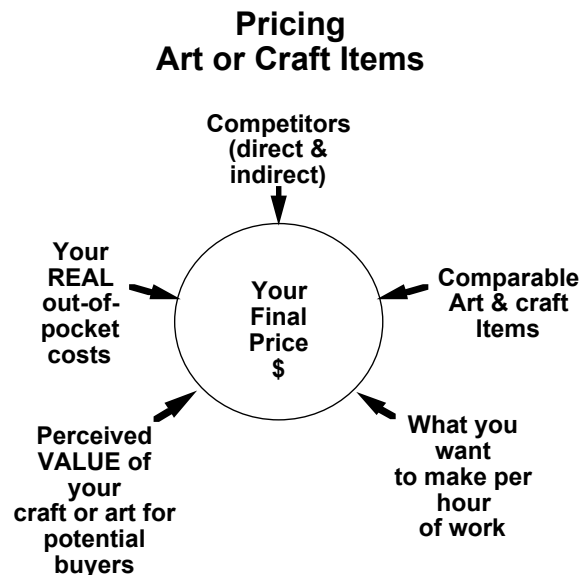
You may or may not want to have a separate checking account and credit card. If your business gets large, then that can make accounting easier. But as long as it is small, then so long as you maintain a separate Quicken register for your business, then it doesn't matter whether you co-mingle your business money into your personal checking account and credit cards.

Intuit also makes great tax software so that you can do your own taxes—TurboTax for both Windows and Macintosh computers. This is an easy program to use and can handle all but the most complex of tax returns.

PRICING Arts and Crafts:

Many people have trouble pricing their work at first. If you are new and unknown in the marketplace, then you will have to go through a disciplined process to determine fair pricing. Start out by figuring your costs. What do you want to earn per hour? How long does it take you to create your products? What do your raw materials cost? With those numbers calculated, you can determine the minimum price. On top of this, you have the choice of adding in a premium for other merits and reputation (value added). All this may take time to build.

Another way to look at pricing is to consider two factors. 1) charging enough to make some money and run the business and 2) what the public will pay for your work. Unfortunately, what the public will pay or what the work is worth are often a lot less than what it takes to run a business. Here is pricing model to help your thinking.



If you are an artist or craftsperson, I strongly suggest you research what comparable art items are selling for. Go to galleries, stores and especially craft fairs. And go to web sites because many craft people show their work on the Internet. Start out with www.craftersnet. This is sort of a crafters mall type site

and you can learn a lot just by browsing. Do use search engines such as www.google.com and www.hotbot.com to find other craft sites. And, quite aside from pricing info, they are good for market research.

PRICING SERVICES:

It can be difficult to price services because there are so many regional differences. Here is a similar logic flow model so that you can figure it out for yourself.



Estimate how much time it will take to do the variety of errands or other services you propose to offer. That will give you a starting off point for what you should charge. And maybe it will be too much or even too little based on what you know about the area and the people who will be using your services.

Grocery shopping or dog walking could be one part of your personal services. Obviously, the time it takes is pretty much dependent on how much money is to be spent on groceries and/or travel time. You could make up a price sheet with all the various types of errands you will run. When it comes to grocery shopping you could have one price for shopping totals of \$25 and under, another for \$26 to \$50, another for \$51 to \$75, etc.

With grocery shopping, this means that your customers will have to trust you with their money up front. Start with someone you know and get a letter of recommendation from them or at least a phone referral as to your trustworthiness. You could also have a standard form that you sign off on that acknowledges how much money you accepted for your errands and then have the client sign off that they got their goods afterwards. That way, the client has proof you took the money and then after that you have proof that you delivered on your obligations. That should also be good business for both sides and further enhance your professionalism. Make up a nice looking form on your computer.

If the errands involve a lot of driving mileage, then you could add a premium of, say \$.50 per mile for any miles over 10 miles round trip.

You could cross check all your prices against those charged for similar services around the area. You should charge more than a cleaning service, but probably less than a plumber or electrician. Somewhere in between is probably about right.

Finally, I would start off high because it's a lot easier to reduce prices than to raise them. Most of your customers are going to be busy, affluent people who can afford the convenience you provide. Or they may also include the elderly infirmed. You could have a set price list but discount for elderly who really need your help and may not be able to afford the full price.

You may want to check into insurance as that may be an issue. You are not carrying passengers, but it won't hurt to ask. And don't hesitate to go to the local SCORE chapter for free advice.

Depending on the nature of the services you want to offer, it may be good to look into being insured and/or bonded. These are separate issues, I might add. Insurance is one thing, bonding another. Bonding implies that you are taking substantial financial responsibility for another person or agency and protects that person or agency against theft by you.

Insurance is a liability issue and I would simply ask around to find a reliable, honest insurance broker to give you information on that. Just look in the yellow pages.

You are well advised to maintain meticulous financial records. Otherwise you may face a constant stream of IRS penalties. Such record keeping need not be a big burden. A computer software package, Quicken, is inexpensive, easy to use and remarkably complete. It is available in either Macintosh or Windows versions and no independent consultant should be without it. Hiring a bookkeeper or accountant to maintain records will save you little time and just cost you money.

Understanding Cash Flow

Cash flow is the movement of money into and out of the business over a specified period of time. Cash flow helps you know how much cash you will need before the business supports itself. Cash flow is not the same as profit and loss. A business can be technically profitable on a P&L statement, yet broke on a cash flow basis if the money coming in doesn't arrive on a timely basis so you can pay your bills. Here is a simple example.

As you can see, without an infusion of \$2,500 in the third month, the business would be in trouble.

Cash Flow	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Starting Cash	\$0	(\$1,000)	(\$2,500)	(\$2,200)	(\$400)	\$2,900
Cash IN						
Cash Sales	\$1,000	\$1,500	\$3,000	\$4,000	\$5,000	\$5,000
Collections	\$0	\$500	\$1,000	\$1,500	\$2,500	\$2,500
Other						
Total Cash IN	\$1,000	\$2,000	\$4,000	\$5,500	\$7,500	\$7,500
Cash OUT						
Rent	\$700	\$700	\$700	\$700	\$700	\$700
Payroll	\$1,000	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Other	\$300	\$300	\$500	\$500	\$1,000	\$1,500
Total Cash OUT	\$2,000	\$3,500	\$3,700	\$3,700	\$4,200	\$4,700
Ending BALANCE	(\$1,000)	(\$2,500)	(\$2,200)	(\$400)	\$2,900	\$5,700
Change (CASH FLOW)	(\$1,000)	(\$1,500)	\$300	\$1,800	\$3,300	\$2,800

Furthermore, it is apparent that the owner might be more aggressive in collecting what is owed him although what is shown is pretty typical of what one can expect.

Estimating taxes can be a headache. For example, the timing of a consultant's income is erratic and unpredictable. You must not only pay the IRS at least 90% of your owed taxes, but such payment also has to be timely relative to when you earn the income. A spreadsheet template to track expected income and expenses can be very useful.

Be careful of the relationship with your alliance associates—people that you hire to help you on a project or occasional basis. If you are their sole source of business, their status as independent contractors may come into question with the IRS and you may become responsible for such things as withholding and FICA (Social Security).

You will need to obtain from the IRS a tax identification number different from your Social Security number. This tax ID # should be tied to the name of your consulting firm. Then put that number on all invoices to clients. Be sure to have a separate checking account and even get a separate credit card for your business expenses. You can get a Tax ID number from www.irs.gov and downloading Form SS-4.

There are many other tax issues for the independent consultant or service provider which are beyond the scope of this article. A good working relationship with a talented tax accountant can be invaluable.

Most important, “keep your day job.” It takes time to build up a small business and in many cases the business never gets big enough to support anyone. But even on such a part time basis, the work can be very satisfying and a decent source of extra money.

Improving the Bottom Line
Simple, common-sense tactics for cost savings
that go directly to your bottom line!

by Dr. George Matyjewicz

Over the years, we have helped many companies grow profitably, using simple, common-sense tactics for cost savings that go directly to your bottom line! And it's the little things that count - a ten percent increase in profit is more likely to come from twenty things that contribute one-half percent each than from one thing that gives you the full 10 percent.

Here are 15 tips to help you cut accounting and administration costs.

1. Improve Collections. This tip comes from my partner (both life and business) Phyllis. Rather than wait for a bill to be past due, call the customer the day before the payment is due to be certain they received your invoice and that it is scheduled for payment. If they haven't received it, tell the you will fax it to them immediately. This trick alone is how she has improved collections from 120+ days past due to 45 days (94% current) at a major importer.

And deposit daily! Take advantage of the short-term interest on your deposits.

2. International Payments. While it takes an average of 42 days to collect payment from U.S. companies, it is much slower in other countries. The average days outstanding on receivables in other countries: Iran 310; Syria 175; Kenya 143; Ethiopia 138; Argentina 121; Uruguay 120; Tunisia 116; Chile 109; Ecuador

107; Cameroon 106; Morocco 105; Algeria 103. So, if you do business there, you better adjust your prices to reflect these slow collections.

3. Accounts Payable. With each vendor, work out an agreement to delay payments or spread them out. A long payout over one year can be secured by a note and will reduce your accounts payable on your balance sheet (it goes under long-term obligations). This improves your working capital position, which makes your lenders or investors happy.

4. Improve Cash Flow. By improving cash collections and delaying cash payouts you have improved cash collections. Let's look at an example. Assume your sales are \$3 million and you have 120 days in accounts receivable, or \$986,301. Improve it to 45 days and you reduce it to \$369,863, which is a cash flow improvement of \$616,438. If you delay payments to vendors to 45 days instead of 30, you could improve cash flow another \$123,287 on payables of \$1 million. That means you have improved cash by \$739,726!

And, if you still need to improve cash, consider factoring your receivables, which is very common in the fashion industry. If you sell to customers who have good credit, you borrow against the receivables or sell them outright.

5. Save Pennies. Reduce costs wherever you can. With a business, you have five major areas of costs: 1) Labor; 2) Rent; 3) Inventory; 4) Equipment; 5) Marketing. Save on the operation costs like rent and equipment, and you have more to spend on the things that make you money – inventory and marketing.

Before you spend a lot of money on fancy offices, fixtures or state-of-the art technology, consider other, less expensive ways. Fixed expenses don't make you money!

6. Reduce Cost Of Your Office Supplies. Go through your past invoices and highlight the office supplies that make up 80% of total dollars spent. You should focus on only the top 20%--those items you always need to have on hand. Then, contact three vendors and get bids on those specific items. Let them know you're shopping for the best deal. If you include a superstore (i.e., Staples, Office Max, Office Depot) in your survey, account for the costs of an employee's time to get the supplies.

Compare prices with online or mail-order companies. Ask questions: What is the minimum order allowed? Who pay the freight charges? Do they have an 800 number to place orders? Who pays the return freight if there are problems?

Centralize the purchase and location of office supplies to improve inventory control and reduces redundant purchases. Work with your supplier to develop "just in time" inventories where the supplier manages the inventory and restocks as needed. Often, orders can be delivered within a day.

7. Telephone Control. Make sure you are getting six-second increment billing with no minimum per call. Some long-distance carriers will charge you a full minute even if your call is only 18 seconds in duration. The shorter your average call, the more you'll save by having six-second billing. With voice mail and faxes being so common, the average call is getting much shorter. Studies have shown that six-second billing can save you around 10 percent on your long-distance bill. Competition with telecoms is becoming fierce. Some are now using the mobile telephone billing concept - flat fee for "x" minutes anywhere.

If you have more than a dozen telephone lines, you may be able to save money going to a system that uses trunk lines and shares them among different facilities. Rather than pay separate charges on each telephone line, this allows you cut line charges.

8. Your 800 Number. Consider a toll-free telephone number for customer service or to tie locations together seamlessly. For example, let's say you are a software company with sales in one location, support in another and administrative in a third. Rather than give customers three different telephone numbers, give them an 800 number, which offers a menu for them to select and redirect the call. When we first implemented such a system, we learned the differences in costs were quite significant.

When negotiating for an 800 number, a critical question you must ask is whether or not you "own" your 800 number. In May '93, the U.S. FCC enacted a regulation allowing the customer to keep the same 800 number when switching to another long-distance company ("portability"). If you move, your number goes with you. The telephone sales rep should ask you to sign a "Resp Org" (Responsible Organization) form, that is required to be submitted, turning the management of your 800 number within the 800 database entity over to a long-distance company.

9. E-Mail Rather Than Telephone. Use e-mail rather than playing telephone tag and incurring unnecessary long-distance telephone charges. Make sure your company's e-address is on your stationery, business cards, invoices, shipping papers, advertising and anything else that reaches the outside world. And make the e-addresses relevant, i.e., on invoices, include the accounting e-address; on stationery, a general information e-address; on shipping papers, the shipping department and/or accounting.

10. Do Your Own. If you spend a lot of money on outside professional fees, considering hiring in-house paralegals, researchers, accountants, and lawyers, which can cut your professional bills substantially. In one venture where we were involved, we used law firms in 15-20 different countries, and our legal bills were extremely high. We hired a paralegal, gave her the title of compliance officer, and had her review and write all contracts, security policies and other documents, which were then reviewed by our lawyers, rather than them writing the document.

One simple legal process that you can do on your own without even using a paralegal, is to incorporate. I have incorporated dozens of companies using the Company Corporation, and you can select a particular state or register in the US if you are a foreign company. You can find them online at MyCorporation.com.

11. Shop Your Banking. Banks are continually adding fees to try and recover their costs. You should carefully review your accounts. Consider asking for bids on your banking business every three years, as you would your suppliers. You may have grown, and need a new type of banking relationship.

12. 101 Questions To Ask Your CPA. This free guide contains questions to ask about financing, analyzing the firm's competitive standing, lease/purchase decisions, how to structure a business, business insurance, and more. Send a SASE to: Division for CPA Firms, American Institute of CPAs, 1211 Avenue of the Americas, New York, NY 10036.

13. Quicker Credit Checks. When you give credit to people, be sure they fill out an application. It should include not only business references, but also full name, address, social security and driver's license numbers of the owner of the business. Why should a customer wait two to four weeks for you to receive their credit check through one of the large companies like TRW. Instead, ask for COD on the first order, and do some of your own credit checking until the TRW comes in. While banks are usually reluctant to release specifics about their customers, you can ask them if their balance is at least twice as much as necessary to cover your order. Then look for the banker to use words such as honest, respectable, and trustworthy in describing their customer's abilities.

14. Cut Printing Costs. If you spend more than \$500 on a printing job, it can pay to shop around. Contact local printers, mail order printers or search online. We recently bid out a business card order and sent the image to ten printers online. We got back ten different prices, and a lot of gobbledygook - technobabble,

that we didn't understand. We chose the one who told us in plain English, which was also one of the most reasonable. We then had another larger tri-fold print job, which we asked them to do, and they were intellectually honest enough to tell us they specialize in short runs, and declined to bid on this larger job.

15. Reduce Telemarketing Calls. Do what I do when receiving a telemarketing call. Ask if they are buying or selling. If selling, I'm not buying. Also, tell your staff about the law that says when someone calls them, they can specifically ask not to receive any future calls. The company then has to put your company on their list to avoid. You can also send your name, address, and phone number to the Telephone Preference Service, c/o the Direct Marketing Association, and you will be deleted from their members' telemarketing lists. The operative word here is "members."

The IRS, Pay Or Fight? When you get hit with an IRS additional tax levy, consider fighting it. According to IRS's statistics, of 40,000 tax cases sent to appellate level 75 percent were settled by agreement. There are two methods of appeal: 1) directly through the IRS's administrative process, or 2) directly to litigation in the courts. The second course of action is rarely chosen because most disputes are settled at the appellate level. If agreement can be reached at this level, a court challenge is still available.