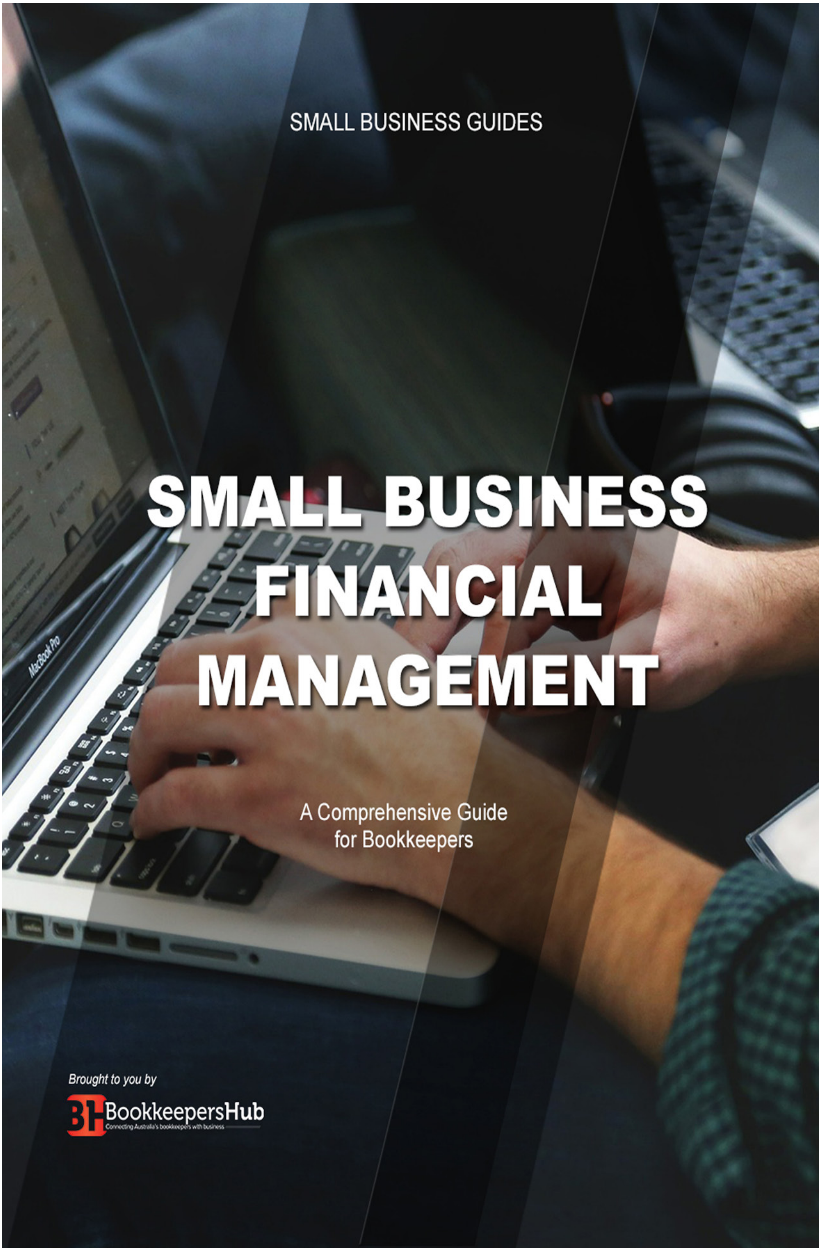

SMALL BUSINESS GUIDES
SMALL BUSINESS FINANCIAL MANAGEMENT
A Comprehensive Guide for Bookkeepers
Brought to you by
BookkeepersHub
Connecting Australia's bookkeepers with business

Delayed Departure

There is no easy way to own and operate a small business: it is a continuous uphill battle. But this this e-Book will be a guide to business owners and their trusted advisers on grasping the essential of SMB finance.

It will be clear to readers that cash is the lifeblood of small business; that's why we have gathered our editorial team and expert contributors and teamed up to develop this resource.

Small Business Financial Management: A Comprehensive Guide for Bookkeepers.Whether your client's business is just starting out, going through some changes, or has been around for many years, having a good understanding of the financial position (especially cash flow) can make a huge difference in the short and long-term management and how you approach the future of the business.

In this eBook, we will cover.

Contents

Estimating Cash Flow

No matter how great your business model is, how profitable you are or how many investors are interested in supporting your business, you can't survive if you can't manage your company's cash flow. Even if you're a brilliant entrepreneur or the trusted advisor to the entrepreneur, you must stay squarely focused on managing your company's cash flow to avoid putting your business in imminent danger.

Optimism is a key trait of successful entrepreneurs. After all, what realistic person would persevere in the face of so many obstacles, so many naysayers and so much stress? But while optimism is critical for a new business owner, letting it compromise objectivity can be dangerous to cash flow.

That's why it's so important to complete objective and realistic sales forecasting based on historical evidence and real numbers. By applying quantitative forecasting methods, actual past revenue data from the business or other businesses in the industry can be used as a basis for tracking trends and predicting future sales. This information, along with some objective intuition, will help you come up with more realistic future sales projections.

One of the fastest cash-flow killers -- particularly for small B2B businesses -- results from unpaid invoices from clients. If you aren't being proactive about collecting payments from your clients, you could be on your way to a dangerous cash-flow situation. We will expand on this later in the eBook.

The value of a cash-flow budget

Forecasting is critical but the cash flow cycle can still play havoc with the SMB's finances. As a case in point, consider a retail business:

Using a cash-flow statement will help you track your inflow of revenue and outflow of expenses during a specific time period. This will help you anticipate when you'll have more money going out than coming in, so you can plan ahead for those difficult periods. Without one, you're just guessing at whether you'll have the money you need when you need it, and you'll increase your chances of facing late payments and other penalties on past due invoices.

Funding the cash cycle

Hiccups in cash flow are a business reality. This may be no big deal if you have a cushion of savings on hand. But if your company is working from a zero account balance, one slow sales month could mean instant disaster.

To safeguard the business from cash-flow issues, maintain an account balance equivalent to at least two months of operating expenses. That way, even if you experience unexpected stalls to cash flow, you have reserves in place to protect yourself.

Building a Set of Projections

Past revenue or industry benchmarks are useful guides for building a set of projection to identify cash and resource need for the SMB. Reliability of projections will depend on ow much you know (or can find out) about your business, the market, and other factors that influence the numbers.

Are you making an annual, quarterly, or monthly projection? If this is your first forecasting exercise, it might make sense to start with a 6-month plan, as it's long enough to give you a good sense of what your business will do, but it's short enough that you won't feel 'locked in' if something changes in Month 2. If you are creating a business plan, or looking for lending, you will probably need a monthly forecast for Year 1, and then 2 years of additional annual forecasts.

Building a conservative revenue projection: Think realistically about the time you have available to sell to or service your customer base as well as the price and discounts you have for signing up. There are only so many hours in a day you can be open or employees you have to run a business, so make sure you are using accurate factors.

Plan for the future expansion: Expansion is never far away from the mind of an entrepreneur. Cash can become a blockage of estimates do not cater for contingencies. With this information at your fingertips, you can set out your next steps. Is there a month where you might have some extra cash? Maybe you can pay off a little more principal on a loan, or possibly spend a little more on marketing to see if you can grow your customer base. By building out the strategy around the numbers, you can continue to hit your projections and build a solid foundation for the future.

By keeping in tune with your projections you will be able to evaluate whether or not the past week or month was an anomaly or a new data point to inform a revised forecast. By combining conservative revenue projections with accurate cost expectations, and understanding the final outcome, you can build a financial forecast that can help your business succeed.

Developing a Strategy to Increase Profit

Most business have some ability to alter the price of their products or services. There are others that can be described as a ‘commodity businesses. In other words, their product is a commodity where there is no perceivable difference from one business to another other than price.

Let’s look at costs because to increase profit you must increase your sales by more than your costs.

Variable Costs

There are ways to lower your variable costs by buying smarter, or getting benefits from technology, or from economies of scale that come from increased volume. You should continually be on the lookout for ways to reduce your variable costs although the options can often be quite limited.

Fixed Costs

Fixed costs are costs that do not change as your volume of sales changes, at least in the short term. Examples include rent, wages, licenses, interest, lease costs.

In reviewing your fixed costs you need to evaluate what you are getting for what you are spending and whether there is a better, cheaper way to achieve the same or better result.

Cost questions to ask include:

- Is this cost necessary to my business?
- Is there another alternative that may have a lower cost without negatively impacting from my ability to provide the same level or quality of service?
- If I could reduce this cost, would the reduction in cost be less than the reduction in profit?

When you are considering an increase in fixed costs you need to evaluate whether the increase would result in extra gross profit that outweighs the increase in cost.

One area of fixed costs that gets a lot of attention is wages because many of the mega-companies seem to be always reducing staff as their profit improvement strategy. SMBs are, increasingly seeking outsourced solutions to a range of cost centres such as payroll management.

Managing costs

In order to survive, a small business must learn to be thrifty. But how can a business keep within budget, without at the same time affecting the overall integrity of their business? To help you on your quest to save money, here are some of the easiest ways your small business can cut costs, without compromising the quality of your actual goods or services.

Go for bundled packages: Your internet and phone packages can be one of the larger (and most necessary) monthly expenses for your small business. If you are not already using a bundled package, call your service provider to find out how to combine these costs to receive major savings. Don’t be quick to go for higher cost bundle unless you are going to use all the features.

Look for cheaper software: One of the easiest ways to cut costs is with the software you are using for your business. Most likely, there is always a cheaper version of what you are using. If you’re paying a lot in licensing fees for your accounting, inventory management, CRM or marketing software, there are great SaaS (Software-as-a-Service) applications on the market. You can find many online versions of what you need available for a low monthly cost or even for free. Take a look at your software and find out how much you are paying for each program. Pick the most expensive software packages you are currently using and look for alternatives.

Pricing Strategies

Before we look at strategies to increase price, let's first look at the options for actually setting your price.

Many people work out their price by determining variable costs and then applying a mark-up. For example, the cost is $10.00 and I will mark it up by 50% so my selling price will be $15.00. Or the cost is $10.00 and I will mark it up by 100% so my selling price will be $20.00.

The question is: what should the percentage mark-up be? In my example the profit difference is $5.00 per item, which, over a large volume of items would be a huge difference.

The answer to that question is usually determined by reference to what others in the industry are doing. But who sets the 'norm' for the industry and who says this is correct?

Compare to averages

You are not in business to match your competitors' prices. You are there to provide the best value to your customers.

Price is only the most important factor when all other things are **perceived** to be equal.

So to command a higher price you must be able to market your products or services in such a way that your customer ***perceives*** extra value.

As an example, you may be able to find a marketing consultant for as little as $75 an hour. On the other hand, there are marketing consultants, especially in the area of internet marketing who charge thousands of dollars and are compensated with a percentage of the increased business.

Many small business owners operate from a paradigm of 'meeting the market' and will discount prices when asked to. Indeed, many offer a discount before it is even asked for. And more and more people are learning to ask for a discount simply because of the number of times they are successful.

On the issue of value: identifying your value proposition—also known as your ***unique selling proposition***—enables you to find the right audience and set a reasonable price. Start by assessing the top benefits offered by your product or service. Once you've identified the various advantages of your product, determine the possible solutions that those advantages offer for your target customers.

The key is to think like the customer. If you can identify their 'pain' point, that's great. Then you can figure out how customers will use your products to meet their needs (to resolve their 'pain') and align your marketing efforts accordingly. Once you've identified your specific value proposition, start setting your pricing strategy. Depending on your customer base and targets for market penetration, you may want to use ***subscription-based pricing*** (as accounting software providers do)or ***value-based pricing*** (for example where money or time saved can be readily established).

The Effects of Discounting

Discounting is not, generally, a sound, long-term strategy.

If your strategy is to win new business by being the cheapest, you only have the advantage until a competitor reduces their price to be less than yours. It is not sustainable unless you have a cost advantage over your competitors and your product or service is very sensitive to price changes.

Many people do not realise the extent of the volume increases they need to compensate for discounts in price. Look at how much your volume has to increase when you discount your price.

For example, if your gross margin is 30% and you discount price by 10%, your volume needs to increase by 50% just to retain your starting profit.

If your current margin is:									
	20%	**25%**	**30%**	**35%**	**40%**	**45%**	**50%**	**55%**	**60%**
And you discount price by	To make the same profit, your volume needs to increase by:								
5%	33%	25%	20%	17%	14%	13%	11%	10%	9%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
15%	300%	150%	100%	75%	60%	50%	43%	38%	33%
20%	-	400%	200%	133%	100%	80%	67%	57%	50%
25%	-	-	500%	250%	167%	125%	100%	83%	71%
30%	-	-	-	600%	300%	200%	150%	120%	100%

So discounting is a valid strategy to clear old inventory or to stimulate slow sales periods but not as a general strategy.

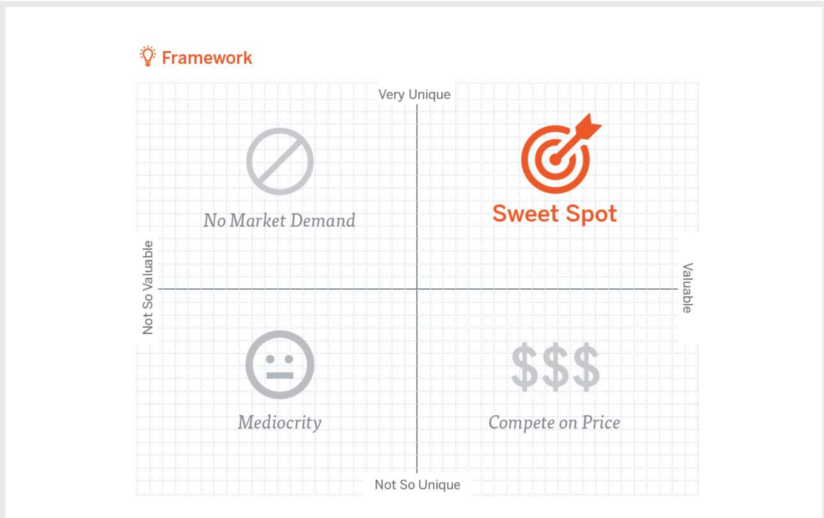
Your customers: getting more value

The first step in analysing your customer base is thinking about it as a portfolio – a mix of revenue opportunities made up of differing behaviours and benefits. Studies have been conducted at every business size showing that by evaluating an existing customer base, an organization can use the data to grow revenue without acquiring a single new customer, among other benefits.

Every business owner knows that keeping a good customer is more valuable than acquiring a new one. But let's take that notion a step further. Not only is keeping a good customer critical, but an existing client base is prime location for revenue opportunity.

Finding the 'Sweet Spot'

Look at the chart below.



In the bottom right hand corner you have a valuable product or service, but its' not unique, so you always have to compete on price. In the upper left corner, you have a mediocre product that unique – but you own a market that doesn't exist!

In the bottom left corner, you have a mediocre product or service and other firms are doing the same mediocre thing. You want to be in the upper right corner, where you have a great service that's also unique. That's' the place where margins are higher and where profits are made.

The trusted advisor can assist by identifying what extra services they can provide to get their clients into better shape. It goes without saying that good bookkeeping makes life easier for business owners as well as their accountants. It may be an iterative process to discover your sweet spot, where you can settle on a great service; once found, let it bloom.

Revenue opportunities

If the business has found a sweet spot, the chances are, there is even more revenue opportunity than what the account is currently yielding. If you're unsure of the exact reason for the low level of satisfaction, ask. Customers will always appreciate a candid conversation and an authentic attempt to fulfil specific needs. You can't be everything to everyone, but sometimes a manageable tweak in service is worth the time and energy to keep a high-revenue account.

The "sweet spot" yields customers that are the best of the best. Find the similarities in these customers and you've found a gold mine for new acquisition targeting.

In the lower left hand quadrant you may need to ask yourself if the business is devoting too much time servicing these accounts. This quadrant may be the example of clients not worth signing in the first place. Always consider if energy spent servicing a low-revenue, unhappy client could be better spent elsewhere, like keeping or attaining a high revenue opportunity.

All customers are NOT created equal – with limited amount of time and energy in a day, it's best to evaluate services alongside opportunity. It's not worth running around like a mad person to service a small opportunity client. Keep your services consistent unless a high revenue opportunity deems it necessary to make modifications to win (or keep) the account.

With a strong knowledge of your existing customer base, you'll be able to take advantage of key opportunities while tuning into the most profitable targets to offer your services.

Managing Accounts Payable

Accounts payable are, simply put, the money you owe someone else. Whenever you are working with a variety of vendors, it can be really difficult to keep up with whom you owe what. If you allow this to turn into a passively managed administrative task, it could mean that your relationships with these suppliers can suffer. It can also mean that you spend more time than necessary paying.

Create consistency: You should establish a basic accounting workflow whether it is for yourself or someone else. This ensures that everyone who invoices you is entered into your accounting system the same way and can expect a certain level of service.

In addition to what is entered into the accounting software, maintain paper copies or scans of invoices so that you have a record on hand to go back to.

Break down expenses on a regular basis: Another part of actively managing vendor relationships is understanding cash flow at a deeper level. Are you taking advantage of any discounts offered by vendors? Are you consistently late on certain relationships? Are vendors constantly late providing you with invoices? Adding a qualitative layer to your cash management can ensure that you aren't wasting money.

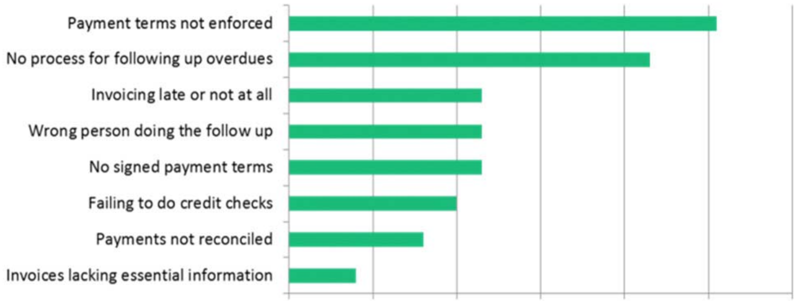
Look for ways to cut a better deal on services, either by asking for a discount outright or looking for competitors that may be cheaper. Breaking out your expenses on a quarterly basis can help you plan ahead and make sure that you don’t fall into the trap of passively paying for something you no longer need.

Consider also employing an advisory bookkeeper at least on a quarterly basis to give the books a once over, almost like a shadow CFO.

Managing Accounts Receivable

Managing accounts receivables is often one of the least enjoyable aspects of owning your own business. From determining who is creditworthy to chasing down late payments, this vital component to sustaining your cash flow can be both time consuming and downright frustrating. Moreover nearly 50 percent of all small businesses have customers who are more than 90 days past due on payments. Waiting this long for payments can cause potentially critical; cash flow gaps that make it difficult to run a business.

What is the most common problem faced by SMBs?



Source: debtordaddy.com/2015/03/06/axing-your-aged-debtors-what-do-the-experts-think/

A managed solution

Managing requires a strategy, prioritization, a process, and tools to execute. Just as there is a difference between keeping up with billing and managing billing, crucial as staying on top of a business's day-to-day selling and servicing, having a proactive process for managing how payments get from point A (the customer) to point B (the business bank account) is equally as critical to cash flow.

With automated customer follow-ups, better tracking, and a better payment experience for customers, a business owner will see a marked difference on incoming cash flow.

Managing cash flow management is also about systems and processes. Collections process can only take overdue accounts so far. Inevitably a business owner finds that they hanging on to accounts which have blown out beyond 'normal' limits.

Research by the Bookkeepers Hub and their industry partners Prushka (a leading debt recovery firm) revealed that, if an account is 60 days overdue, then the chances of being paid at 90 days are reduced, there is even less chance of it being paid at 120 days. The older a debt is, the greater is the chance that it will become a bad debt.

Although many bookkeepers are more comfortable keeping the heads down and not stand in the line of fire between recalcitrant debtors and agitated business owners, there are resources and services at hand that can assist the business owner in better managing their cash flow.

Cash flow management makes the difference between good and bad business. What a compelling argument for being a proactive advisor to a business decision-maker with this knowledge under your belt!

An Accounts Receivable management system

For any business, time is money. Spending time on basic operations instead of growing a customer base translates into a real expense. Multiply the estimated hours spent in a given month on administrative billing activities and with the average cost you might for an hour's work, and you can estimate the time cost of billing every month. If you have to spend hours in spreadsheets to understand your receivables, it's difficult to have an accurate picture of the health of the business.

An effective A/R process comes down to establishing key steps, all of which are built.

1. **Good reporting**. Having receivables and extending credit to customers feels a lot like acting as a 'financier'. Whenever you are taking credit risk on a customer, knowing how much risk your company can take on and measuring that risk becomes critical.

2. **Establishing the rules**. Extending credit is more than simply selling and hoping to get paid, and there are no shortcuts if you don't want to run the business at the mercy of your customers' payment schedules.

3. **Handling the customers**. Knowing how to approach them, how to ask for commitments while maintaining the relationship is a critical part of the AR management process.

4. **Metrics that matter**. Regularly tracking metrics allows you to see the trends in A/R real-time, and catch the sudden changes. It gives you a solid context to know the types of actions that will be required. It gives you the ability to do forecasting (NOTE: value-add function for the trusted advisor), and with accuracy.

5. **Executing the system**. Taking timely actions and professional persistence is by far the biggest indicator of success in getting paid. Knowing how to do this without damaging the relationships is what really sets apart the businesses who have good follow up practices for their A/R accounts.

6. **Benefits flowing**. The way A/R is managed (or not) has a huge impact on funding options. Good A/R management signals

creditors that they are dealing with a disciplined, methodical business, usually with very good odds of success. Proper A/R management also reduces the payback risk and improves your eligibility for better, relationship with the business banker. Moreover, it reduces the total funding need by accelerating the payment stream from the business's own customers.

Managing late payers

You don't like them, your client's customers might even be embarrassed when they receive them – payment follow-ups are a bummer all around…or are they? Perhaps a new perspective is in order. What if payment reminders (the friendly, proactive kind) were communication opportunities to reach out to the customer with nestled marketing messages?

Follow-ups don't have to be the awkward conversation. And as a way to cut down on forgotten bills, a friendly email reminder in advance of the due date is a great service to customers. Create and save an email template version that you can send with a few clicks. It may be worthwhile examining the invoice: is doing its job? Here are some pointers:

- **Invoices that Increase the likelihood of on time payment** Using psychology and design principles, the wording, layout and colour of your invoices can be tweaked to subtly encourage on time payment.
- **Easy-to-find contact details** will be crucial if your customer has any questions, so be sure to list a direct number to someone who could answer any billing questions quickly. Studies have

also shown that including "thank you" in your signature increases the likelihood of on time payment.

- **Payment terms**: Be sure to clearly, boldly state "payment is due within X days". It's also a good idea to include a warning about your late fee policy, or explain that interest will be charged for late payment. Consider including a 2.5-5% discount for early payment. (see more below)
- **Offer multiple payment options**: The most influential factor to getting paid on time is offering a variety of payment options. The greater number of payments options you provide, the more likely your customers will pay quickly. Online or digital payments are highly preferred. If you don't accept credit cards, try online services like PayPal.

Saying "No" to a new customer

Actually good cash control begins with good credit control. And that starts with ensuring your customers are able to pay you.

Using a Credit Reporting service

The credit report is an essential component of good cash flow management. Bad debts are one area which can be disastrous to a business. Bad debts can make or break a small business.

Credit reporting has made it possible for a business (or their trusted advisor) to conduct due diligence on the customer for which they are extending credit terms. For example, *Creditor Watch*, a credit reporting business, makes it easier for business to manage customers more effectively.

Turning away sales can feel like sacrilege for business owners, especially when their business is new or their cash flow is tight. But longtime entrepreneurs say that being selective about whom you work with, and on what terms, is a crucial step in building a successful business — and a step that is increasingly complex.

Let's pause for a moment and consider cash flow management as a discipline and one that has several moving parts:

- The **credit worthiness** of business customers (as above)
- **Credit policies** and procedures of the business and their effectiveness
- **Collection policies** and debt recovery action.

Credit Terms for Customers

The success of your receivables management hinges on your ability to determine who should get credit and who shouldn't.

Your credit terms need to also be competitive and agreeable to your customers.

For the purpose of managing receivables, be especially clear on the definition of net terms. This is a form of credit extended from a business owner to a customer offered as a source of short-term financing.

Part of extending credit is defining what will happen if you don't get paid on time. This information should be communicated to customers at the time of sale and noted clearly on invoices to encourage customers to pay you on tie and avoid in ambiguity.

Having a set policy in place will allow you to better predict your cash flow situation.

Your policy should include:

- Payment due date (net 30, for example)
- Have a separate payment terms agreement that your customer signs; including return or refund policies.
- Include the payment terms in the proposal that your customer signs

- Payment types accepted and how to remit
- Optional: Late payment fee
- Optional: Early payment discount (as above)

With the policy in place, the next step is to clearly communicate it to customers – in your upfront contract, on your invoices, on your website, and even with an invoice insert to get attention.

Remember, apart from the business decisions-maker, who is best placed to be a trusted advisor in facilitating good business health than the bookkeeper? After all, they have many more touch points with the business owner than, say, the accountant who often only has one or two dealings with the client a year. Indeed, there is a great deal of discomfort felt by many business decision-makers when chasing slow payers; they see the advantages of a trusted advisor handling this.

Technology-aided collection tools

Bookkeepers will be familiar with the array of cloud-based tools being promoted by the various accounting software suppliers (see later). Creditor Watch, mentioned earlier, is one of many partners now integrated with the major accounting software providers such as Xero and MYOB, enabling users to receive automated **credit reports**, access more in-depth credit reports and to analyse their debtor's ledger.

Collection tools include automated late [payments systems, such a provided by providers including *Debtor Daddy*. And, in terms of the more formal, legal tools, debt recovery by an organisation such as Prushka is often a necessary (and often painful) option.

Automated invoice chasing is a popular concept which has been serviced by a handful of apps including Chaser, EzyCollect .

Businesses with many late payers will want a more sophisticated app with more options such as sending one statement for say four invoices to a customer rather than four individual reminders.

If you want to get the whole picture of what apps are out there, which is best and how they stack up, *WhichAddOn* has put together a useful comparison of debtor management apps.

Accounting Software Systems

When you're running a small business, one of the most important decisions you will make is how you manage your accounting. Having all the records you need, tracking expenses and revenues, as well as the systems in which you choose to do this are going to make a huge impact on your year-end financials. Below are a few tips on successfully tackling your small business accounting.

As a business, it's important that you work with a bookkeeper who can assist in the organising of the financial data. It's important that you begin preparing this data correctly today. Key pointers are:

- **Align reporting and accounting.** Your reporting and accrual accounting should be on the same timeline. If you conduct your accrual accounting monthly, you should also report on your finances monthly. This helps save hours down the road that you would have spent on reversals or corrections.
- **Communicate your goals.** It's important that whomever you have helping with your accounting understands what your long-term financial goals are. Understanding where you want to be will help them deliver the best advice.

- **Correctly categorize expenses.** For both budgetary purposes and in case of a future audit, it’s crucial you diligently categorize expenses. Be as granular as possible when tracking these categories. It’s important that you can paint an exact financial picture of where your money is being spent.

The ‘right’ software

Choosing accounting software is an incredibly important purchasing decision. If you want to run a financially sound business, ask your bookkeeper or accountant or financial consultant what might fit your needs best, and get references from any friends running their own businesses.

Cloud-based accounting allows you to access your books anytime, from anywhere and easily work with an accountant. If you’re interested in making the change to the cloud, you can actually still use desktop software, but instead host it on a server

Credit Worthiness

The benefits of solid business credit are immense for small businesses. But, what is business credit and how can your business ensure your credit is solid?

The first step in understanding business credit is to know how it differs from personal credit. Business credit is rated on creditworthiness, such as payment history, revenue and amount of total credit. And similarly, as an individual, your credit score is based on factors such as the payment habits you demonstrate on your personal credit cards, bank accounts, utility and telecom bills, as well as any other debt and data reported to the credit bureaus. However, laws are different between consumer credit and business credit.

With consumer credit there are laws that allow you to challenge anything on your personal credit report. You can have negative entries removed. Business credit reporting laws are a lot less flexible.

Get on the credit map. Before you can even have business credit, you have to get yourself listed with the major credit bureaus. Be prepared to provide your contact information (basic address, years in business, etc.), your entity information and your financial information.

Use a business credit card if you're using a personal credit card for your business, stop. Immediately. Get yourself a business credit card, which is the easiest way to start having visible financial behaviour. When looking for the right card, check for the interest rate, credit limit, fees associated with the card, rewards and incentives

Pay your bills on time. This is a good habit to develop. One month of late or missed payments can hurt your score more than you'd expect. Remember, this applies to your credit cards, your utility bills, etc. All late payments affect the score. If you don't have money for the whole payment, at least pay the minimum.

Don't carry a big balance on your credit cards. How much money you owe on your credit cards in relation to your total credit limit is a huge factor that affects how your score is calculated.

Don't own too many credit cards. It's best to pay off debt on one credit card rather than transferring it to another credit card. Remember: ratio of card balance to credit limit is key. If you close one card and transfer the balance to another card, you run the risk of increasing that ratio, which directly affects your credit score!

When operating on trade credit with vendors, always try to pay before the due date. If your vendor reports payment performance, early payments (not just on-time) will actually improve your business credit score (which isn't the case for personal credit). For example, most business accounts have net 30 terms, meaning you have 30 days to pay your invoice after receiving it. If you can, try to pay it within the first 10-15 days.

Business Financing Options

Credit cards

Credit cards are risky. While they can certainly cause a lot of fear in small business owners and create a sense of danger, when used properly they can become a valuable form of financial assistance. As noted earlier, the key to staying out of debt with credit cards is to only use them when it is absolutely necessary. If you have some essentials you need to buy before your pending loan comes through, a credit card can be a good option. Try not to spend more than you can afford with your credit card and make sure to pay off any outstanding debts as soon as possible.

Credit card debt has the potential to damage your credit score and make it difficult to receive loans in the future, which could severely impact the success of your small business or start-up. Credit cards are great for use once in a while, but proceed with caution.

Crowdfunding

Crowd-funding is becoming a more popular way to raise money for small businesses and start-ups. It is easy to get started with crowdfunding, but the amount of success you have depends entirely on how much effort and time you put into it. If you can get enough people interested, this may be a stress free and easy way to earn some extra cash for your small business. All you have to do is create a company profile, decide what kind of rewards you'd like to offer for raising x amount of money, and work on promoting your cause to help generate interest and donations.

Peer-to-Peer lending

Different than crowdfunding, peer-to-peer lending allows people who are looking to borrow money to connect with those looking to invest or lend. It's a new way for borrowers to access cash and investors to make returns without a middleman.

Invoice financing

A great way to leverage your current assets when you need cash is through invoice financing. When you participate in receivables financing through a company such as Bibby, you are essentially selling your accounts receivable for less than the original invoice's value. The financier buys these invoices at a discount then collect the full payment from your customer. After this transaction, you have immediate cash, and the financier has an impending profit to make from the payment.

When purchasing the invoice, the financier pays you a percentage of the invoice paid value, known as the advance. The advance typically amounts to 70-85% the value of your invoice. The financier then holds onto the remainder as a reserve, which is paid to you upon fulfilment of the invoice, minus any factor fees or charges.

Bank finance in 2016

Financing capital expenditure has become a significant challenge for business owners going into 2016. Banks – the traditional providers of finance to business – are placing a raft of new hurdles before the business borrower as a result of APRA (the banking sector regulator) squeezing the banks to toughen up their lending criteria.

Whether the business owner is a tradesperson, a manufacturer, a hospitality business operator or a haulage contractor, borrowing for capital expenditure just became harder.

Professional advisers are well placed to assist their business clients particularly when it comes to ensuring accounts are up to date, putting systems in place to have robust credit control and assisting in the preparation of loan application.

Using a finance broker to open doors

Most business owners are used to dealing with one bank for all their needs; that may be fine but, increasingly, using a broker who has access to all the different lenders can be advantageous. There are banks and finance companies which may not be on the radar of the business owner.

Lending specialist Tammy Gifford, a principal of ***Loan Wize*** says small business is well-served by the bank finance sector especially when it comes to equipment, machinery and vehicle finance. Bank finance requires that financial be up to date and in many cases requires a borrower to have several years of tax returns and a property; this can be a significant hurdle to many borrowers. Tammy Gifford claims that in many cases a bank can provide funds on a 'no-financials' basis.

She says "You need to have access to all the different lenders policies as opposed to one lender.

"A business owner came to me, referred by an accountant, looking to buy a new car for business purposes."

With one business running and a new one formed, the owner was worried about the historical financials not being high enough to service the loan as it was a recent start-up.

"He was a little short on the two-year period for the 'No Financials' policy."

The business owner indicated that if he had the equipment now, he could grow his business faster and to greater heights than possible without it, in the next couple of years, while he got the historical figures to support the lending.

"I made him aware of a new policy from several lenders in the equipment finance market.

"The way forward was to secure some small equipment finance for the first vehicle through the new business; in six months he would then pre-qualify for a limit of up to $500,000 in equipment lending without financials to help source the equipment that would help him grow his business.

“Of course his conduct with the first lending has to be absolutely perfect and he can only draw upon the $500,000 twice in one year.”

Tammy explains that this owner could make two draws, not two pieces of equipment; whereby one draw (or new loan) could be for a truck and trailer, or a truck and excavator for example, and then the second for another vehicle or backhoe, etc.

“The new company would be registered for two years in January and he will not need financials to obtain this first vehicle.

A happy ending

“He was extremely happy with this plan and told me he was amazed no-one had told him about this possibility before.”

This type of lending represents a departure from the traditional bricks-and-mortar security plus financials. For a borrower with an existing home loan, the strategy outlined by Tammy Gifford above could have been instigated straight away as the bank allows a reduction from two years to one year if the borrower has a home loan with them on the condition of “good conduct”.

Keep Your Customers Coming Back

This really involves two aspects. The first is to increase the frequency that your customer does business with you and the second is to retain your customers for a longer period of time.

Knowing the lifetime value of your customer is important because you then know how much you can invest into the first sale in order to create a long term customer who is going to buy from you again and again.

You have an investment in each customer and it is important for you to ethically derive maximum return on your investment. It is widely viewed that the most important asset your business has is your customer.

It would probably be no surprise to many that, despite the hard work to attract new customers, many business then do nothing or very little about encouraging them to buy again.

In fact, surveys show that businesses spend 6 times more on getting a new customer than on marketing to the customers they already have.

And who is more likely to buy? Someone who doesn't have a clue about how good you are, or someone who is delighted in what you have already done for them?

Offering incentives to customers

There are numerous ways to get customer coming back. One way is by offering warranties that require contact details or by promoting competitions. Let customers know that you offer specials from time to time for existing customers only, or you hold special events for existing customers and you would like them to have the opportunity to benefit as well.

There are many businesses that know who their customers are and have the opportunity to lock in ongoing sales but totally ignore the opportunity.

Can you take advantage of this? – Because this applies to many businesses.

Increasing revenue to a customer

To increase the frequency of their purchases you need to give your customers a reason to come back.

Newsletters are a great tool to keep in touch with your clients. But your newsletters can't be just self-serving advertising of products. They need to include information that is valuable and interesting for your customers.

Keep them informed with educational information, changes in law or the environment that might affect them as well as information about new products and special offers that might benefit them.

Loyalty programs

Say what you like about loyalty programs, they work. And maybe you can use them to your advantage too.

So how can you apply these ideas to your business, to lock your customers in, to get them coming back more often, and also refer others to do business with you?

Increasing the average sale to each customer

We all are familiar with the MacDonald's customer service mantra where, at the point of sale, the service person will ask "And would you care for some French fries with that?"

That is called 'cross selling' which is selling another product in addition to the original purchase.

Or, maybe the voice came back saying "would you like to the premium size for just $4.95?"

That is an example of up-selling which is increasing the size of the initial order.

By simply asking a question, a percentage of their customers will say "yes", and the only reason they say "yes" is because they were asked the question.

From the fast food business owner's point of view, they have just increased their profits substantially because they have made an additional sale with no extra marketing costs.

Another technique that fast food restaurants use is called 'bundling' where they might combine a burger, a drink, some fries, and perhaps a bonus item such as a toy into a package and give it a name such as a 'Happy Meal'.

The price they charge for the new bundled product is less than you would have paid for the components purchased individually, but the amount you spend will be higher.

Examples of these techniques

For example, information marketers will often offer an additional complementary product after you have placed your initial order on the Internet. Sometimes the price is even higher than the initial item and as many as 20% or more of people buying the initial item often add the second item to the purchase.

If you have ever visited Amazon.com to search for books, you will notice at the bottom of the screen a message that says "People who purchased this book also purchased the following:" and then a list of suggested titles appear.

So how can you apply this to your business?

Do you have products or services that complement the product or service that your customers initially want to buy from you?

How can you use the cross-selling, up-selling and bundling techniques to increase the transaction size of your average sale?

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