

## [ CAPITAL IDEAS ]

## LET IT FLOW

Smart ways to manage your cash

To avoid the type of cash crunch that forces approximately 40% of new businesses to shut down each year, Brian Hamilton, senior analyst at ProfitCents, and two small business owners offer eight tips for improving your cash flow:

**Price your products and services appropriately.** Pam Washington, CEO of A-1 Janitorial Services Inc. in Las Vegas, uses the job-costing function in QuickBooks Pro to analyze the allocation of all time, material, and expenses tied to a specific project or job. The ability to track expenses and profitability using job costing also helps Washington prepare new business quotes that protect her profit margin.

**Call your accountant.** "Accountants are the most underused resources small business owners have," says Hamilton, who strongly recommends having your accountant review your financials quarterly. Five years ago, Washington met monthly with her accountant for help in taking her business to the next level. This year her company's revenues have topped \$1 million.

**Develop accurate cash forecasts.** Use software such as Microsoft Excel or QuickBooks to prepare monthly projections for the coming year, recommends Hamilton. Monthly forecasts help prevent sudden discoveries of looming shortfalls, allowing entrepreneurs to secure a loan, pursue new business, or convert outstanding receivables to cash in advance.

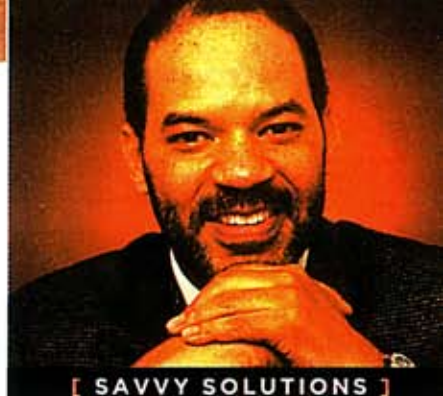
**Look into factoring if you have receivables.** The cost of factoring, or selling your accounts receivable—money clients owe you in the future based on your invoices—to a factoring firm in exchange for a percentage of the payments you expect, has gone down in recent years. Factoring makes it much more affordable to convert receivables to cash. Receivables are typically discounted by 10% to 20%, says Hamilton, and most commercial banks now have factoring departments.

**Manage your expenses better with variance reports.** Use the variance report function available in most accounting software packages, or add it, so you can see how your cash flow measures up to your expectations. Variance reports show how your actual spending varied, or is different, from what you budgeted. The report can alert you whenever there is overspending in a particular department, such as personnel or marketing. —Marcia Layton Turner

**Watch your break-even point.** "Businesses will succeed based on how low their overhead is," says Hamilton, who recommends keeping your break-even point and your expenses low to make managing your cash flow easier. Your break-even point is the point at which you cover all your costs and become profitable; it is generally calculated in terms of sales, whether that's products or hours of consulting.

**Be careful about credit terms you give your customers.** Larry Mapp, proprietor of University Copy Service Inc., negotiated with the University of Pennsylvania to be paid biweekly. He invoices the departments on the first and 15th of the month and the school cuts the check within 10 days. Such an arrangement "gives us positive cash flow and helps us manage our bills," says Mapp.

**Establish a relationship with a lender before you need to borrow money.** "Bankers don't like to take too high of a risk," says Hamilton, so introduce yourself to the lending officer at your bank now and update them every couple of months on your company's growth. Once you're ready to grow and need additional capital, your banker is in a good position to be an internal advocate for your loan application. Better yet, set up a line of credit now in case you ever need it.



[ SAVVY SOLUTIONS ]

## AN IDEA IS BORN

**Q**A I created a baby product that I would like to sell to Toys-R-Us, but I need a prototype built for the presentation. What company can I use to create a prototype?

—T. Merges  
Atlanta

Transforming your idea into a prototype is one of the most exciting and rewarding stages of creating a product. It also makes practical sense to see if your idea works. Here are a few steps you can take to build a product prototype.

The first step is to look for similar products that are available in the market. You want to make sure that your idea is not already taken before you begin working on your prototype. A patent attorney can help you with this.

If you didn't find any products that fit your specifications, it's time to consider hiring a designer to build a working model of your idea.

"Normally, it's hard to present a prototype to a corporation unless you are an established vendor or you already have a strong relationship with the buyer," says Antonio Anderson, an invention consultant who produces a seminar series called Take It to the Market ([www.takeittothemarket.com](http://www.takeittothemarket.com)). To find a broker or sales representative to help you, Anderson suggests visiting the Website for the United Inventors Association ([www.ulausa.com](http://www.ulausa.com)), a non-profit inventor's support group. To find professional prototype developers, search online at [www.thomas.net.com](http://www.thomas.net.com) and use the keywords "baby product prototypes." This resource will supply you with a comprehensive list of companies nationwide that offer prototype design services you need.

—James C. Johnson

Mail your small business questions to Savvy Solutions, BLACK ENTERPRISE 130 Fifth Ave., New York, NY 10011 or send an e-mail to [johnsonj@blackenterprise.com](mailto:johnsonj@blackenterprise.com).