

# BUSINESS LINE

## To Your Success

### WHY EVERY BUSINESS NEEDS A LINE OF CREDIT

By Vivian Robinson, Business Specialist, Fleet Bank

**W**ater damage to a manufacturer's roof threatened to destroy the inventory that now sat exposed to the weather. The insurance company could not issue a check to pay for the roof repair for many days, perhaps a week. Fortunately, the business owner had a business line of credit that she immediately tapped to get a contractor on site, repair the damage, and save tens of thousands of dollars.

This true story is just one example of why every business needs a line of credit. Opening one is fast, easy, inexpensive, and, more important, it provides a financial safety net or "insurance policy" that protects your business from the unexpected.

#### A Comedian on Money

Comedian Jackie Mason once said:

"I have enough money to last me the rest of my life as long as I don't buy anything."

That's the problem. A business never knows when it might need to buy something.

You might need to buy new equipment. You might need to replace a departing employee with one who will require more in salary and benefits. You might get a great trade discount that can save you hundreds of dollars if you buy needed materials within the next 10 days. Every week Connecticut businesses use lines of credit to:

- Balance seasonal cash
- Obtain working capital
- Build inventory
- Other profitable reasons

One Connecticut importer purchases gum arabic from Africa for resale to a major soft drink manufacturer. He uses a business line of credit to buy the gum arabic, pay for the shipping, and pay for the storage. It keeps his business financially stable while he sells his product and awaits payment.

#### A Readily Available Pool of Funds

A line of credit provides you with a pool of funds you can dip into as much or as little as you need to whenever you want. All you do is write a check. You only pay for the amount of the line of credit that you use and, in some instances, a small annual fee.

Some of my clients cannot work or generate revenue in poor weather, but that doesn't stop their



need to pay employees, rent, utilities, and other costs of doing business. Their lines of credit allow them to make payroll and stay afloat even when they have no incoming revenue.

#### Most Importantly

I can't emphasize enough that money is one of the most critical assets your business can have. Without money you fail. Why not give yourself the insurance policy of a line of credit so you'll know you will have access to money if and when you need it?

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The contributors to this newsletter are independent professionals providing general information. Business owners should consult an experienced professional for assistance suited to their particular needs.

# CONTRACTS WITH YOUR WORKERS – A WISE STEP

By Attorney Judy Gedge

**A**s small business owners, we all rely on other people to help us get our work done. These people may be our employees or they may be independent contractors. Either way, it's important that we use written agreements that spell out the important terms of these relationships. If you've got employees in your business, you'll want to have them sign employment contracts. The areas to cover include the standard terms that you'd expect- Job Description, Compensation and Benefits. You'll also want to address issues such as:

- Maintaining the confidentiality of your customer list and other trade secrets
- Limitations, if appropriate, on the employee's right to start a competing business or go to work for a competitor
- Confirmation, if appropriate, that the employee is an 'at-will' employee, meaning that either of you can terminate the employment with or without cause

If you're using independent contractors (for instance, programmers, designers, consultants) you'll also want to use written agreements that spell out your relationship. In addition to a description of

the work to be done, compensation and deadlines, you'll want to address the following issues:

- Maintaining the confidentiality of your customer list and other trade secrets
- Limitations, if appropriate, on the worker's right to provide services directly to your clients (thereby protecting the value of your client list)
- Assignment of the worker's rights to the work product
- Support that the relationship meets IRS requirements for independent contractor status (as well as the requirements of other governmental agencies)

For most small businesses, two standard agreements in template form will 'fit the bill'. You'll want to use one form for your employees and another for your independent contractors. As with other legal documents, it's advisable to have these agreements prepared by an experienced attorney. Following these suggestions will help avoid problems down the road.

## SYSTEMIZE YOUR BUSINESS!

by Faith Manierre, *Busy Bees Professional Organizing, LLC*

**I**n every business, there are many administrative tasks that are done on a repetitive basis: setting up new client files, maintaining data bases, sending invoices, creating and mailing marketing letters, to name just a few. As a busy professional, you'll save time and bring uniformity to your business activities if you "systemize" those repetitive tasks.

A client I worked with recently was wasting valuable time every day because he lacked a system to keep track of his sales contacts. He needed to quickly and efficiently set up a file, instead of re-creating the wheel every time he made a new sales contact! His new system entailed keeping a separate marketing sheet for each client, with all the information he needed to maintain the account and, just as importantly, the relationship. Each step of the process was evaluated, broken down to its component parts, and added to the list--from writing a thank you note to adding the contact's name to his Microsoft Outlook Contact Management system. He builds a reminder into his calendar to make follow-up calls at the appropriate time, so he won't have to rely on his memory. The paper marketing sheet is filed away and can be located quickly if needed for back up. This system helps the business owner ensure that he provides excellent service to all his clients.

Another business owner needed to create a system for the process to follow when she sets up a new client file. She creates a checklist containing each step, to make sure that she follows a consistent process

every time. As new clients come in, she enters them into Outlook and QuickBooks, then sends out a contract letter. She created a template of a typical contract letter, so she doesn't have to recreate the letter each time, but simply customizes it to include the new client information and the details of the job. Because this task is now systemized, she can even delegate it (every business owner's dream!) and know that the results will be consistent and professional.

Outlook also enables small business owners to produce a customized Mail Merge letter to be sent to a particular segment of their contact list. One business owner wanted to send out marketing letters to yacht clubs to promote her summer logo apparel. Because she had entered the yacht club owners into her contact management system, she was able to sort for "yacht club contacts." The system gave her the addresses she wanted, she customized the template marketing letter, the computer put the two together and VOILA! She quickly and efficiently reached her target market for the summer campaign.

You'll find that if you set up systems like these in your business, they will save you time, increase consistency and efficiency, and increase your revenue as you improve the delivery of your services. What a difference "systemizing" can make for your business!

# DON'T SHOOT WHERE THE DUCKS ARE. SHOOT WHERE THEY'RE GOING

by Andrea Obston, Andrea Obston Marketing Communications, LLC

**H**unters know that if you're shooting at something that moves, you aim ahead of your target. In other words, you aim where it's going to be. That's a good way to think of your marketing efforts, too.

Too many people focus all of their marketing efforts at their current customers, in their current situation with their current needs. But all of those elements are effectively moving targets. And, if you don't anticipate where they are going, marketing moves that work today won't work tomorrow.

So, how do you know where the ducks are flying? It's not easy. But here are a few navigation tools to get you started:

**Listen to existing customers** – Do you hear the same complaints, wants or unfulfilled needs from three or more customers? It could be a trend. If you hear it once, you can chalk up a complainant as a malcontent. If you hear it from a second customer, that's a warning. But if you hear it from a third, that says "Take notice. There may be something here."

**Read your customers' trade press** – All of us are guilty of only reading the publications that cover our

industries. After all, that's where the good gossip is. But, if you want to spot a trend in your customers' industry, you better read theirs. Look for recurrent themes in multiple articles.

**Notice trends in unrelated industries** – A big technology breakthrough can change the way all of us do business; not just those in the industry it was created to serve. A client of mine, whose business involves keeping track of mounds of forms, taught me about this one. He's been monitoring developments in the uses of bar codes. He pointed out that, although they were invented for inventory control, he expects very soon that there will be a way to adapt them to the technology to keeping track of paper. His company's been very successful because they make it a habit to look beyond their industry and adapt out-of-the box thinking to meet customer needs almost before they know they have them.

So, go out there and hunt down a few new solutions that aim at where your clients are flying. It will keep you ahead of the flock.

## GENERATING ACCURATE PROFESSIONAL FINANCIAL STATEMENTS

By Annabel Pedomonti, Accounting Software Services

**A**s you plan the future of your business there are many options to consider. Two of these are to bring in investors/partners or to borrow money from a lending institution. You may also want to plan an exit strategy, selling all or part of your business, or delegating many of your current functions.

You can take some steps to prepare for this well ahead of time. One small way in which you can do this is to ensure that your financial reports reflect a professionally run business with numbers that make sense. Your business is going to be less attractive to investors, partners, lenders, and buyers if you need to explain illogical inconsistencies.

There are two areas to consider when preparing financial statements – their appearance and their content.

When looking at your financials do you see any of these appearance flaws?

- Account names appearing variously in upper, lower, or mixed case letters.
- Accounts in alphabetical order instead of in a logical sequence for your business
- Vendor names instead of type of expense (eg. SBC instead of 'telephone')

- Accounts called *Uncategorized Income* or *Uncategorized Expense*

More importantly, do you see any of the following, indicating that the content is unreliable?

- An unrealistic profit margin.
- A credit card listed as an expense (as opposed to a Liability/debt to the credit card)
- Principal pay down on a loan posted as an Expense.
- Owner's Draw posted as an Expense
- Large adjusting entries that are clearly being used to correct data entry error.
- Income on Cash Basis reports not tying to bank deposits.
- Income on Accrual Basis reports not tying to customer billing.

By ensuring early that your financial statements appear professional and are an accurate picture of your company's finances, you will be ready to take the appropriate steps to grow or exit your business when the time is right.

# USING FINANCING TO EASE CASH FLOW

by Yvonne Bruno, CPA, Fulco, DiTommaso, McMahon & Co., PC

**M**ost businesses do not receive income evenly throughout the year. In our firm, it is not uncommon for 45% of the annual revenue to be generated during the first four months of the year. While this results in great collections from February until June, it can place a strain on a company's cash flow if careful planning is not in place.

Consider the following: Sally and Bob own a successful gift basket business. Revenue is generated through a catalogue and through Internet sales. Due to their revenue cycle, approximately 50% of their income occurs between October and December. The remainder is spread equally throughout the year.

Sally and Bob have often had to refrain from taking paychecks in order to pay vendors on a timely basis. In addition, because of the unavailability of cash, some inventory items for busy season have to be ordered late, so they don't always receive the best price. They have tried to make the excess cash last from one revenue cycle to the next, but there were too many months to make the process work effectively.

Frustrated, they came to me for advice. Using historical data we determined the average monthly overhead (rent, utilities, essential payroll, etc.) as well as an estimated dollar amount required for inventory during the lean months. From this information, we calculated the projected cash shortage by month until the

next revenue cycle.

This company is the perfect business that benefits from a revolving line of credit. This loan permits borrowing of a maximum amount of funds (in this case \$75,000), as the company needs it. Interest is paid on the balance outstanding, and principal can usually be repaid as funds become available. The only requirement is that the loan be reduced to zero for 30 days at some time during the year. If the company is an established business (more than 2 years), shows some income, and has a good credit history (occasional late payments are okay), these loans can be fairly easy to obtain.

Many banks and even Costco or Sam's Club provide these loans with a simplified application process, and quick turnaround for requests under \$100,000. The key-determining factor is a good credit history. Sally and Bob obtained financing without any problems, since both the company and the owners had good credit.

Before applying, it is important to check the credit reports of both the company and the owners (small business loans require an owner personal guarantee). Both company and individual credit reports can be obtained through Equifax and Experian (the two major credit bureaus) on the Internet. If any discrepancies are noted, it is critical to clear them up prior to applying for financing. This will eliminate potential snags in the loan process before they occur.

# IT'S TIME TO TAKE A TEMPERATURE CHECK

By Pam Butterfield, Butterfield & Associates, LLC

**T**his is a perfect time of year for taking the temperature of your business to see how hot (or cold) it is. It goes without saying that having complete and accurate financial data is essential in order to get an accurate temperature reading. In addition to the financial facts, there is essential information to evaluate that doesn't necessarily appear in a financial report.

Kick back with an ice-cold beverage of your choice and chill. Now is an excellent time to evaluate how you are doing. Make adjustments for the remainder of the current year and begin getting ready for next year. The sooner you identify performance gaps, the sooner you can identify your options for making improvements.

## Here are five things to evaluate:

**YOU:** Are you enjoying your business? Are you burned out? How are you using your time, productively or unproductively? How many hours do you work, even when you are not in the office? What percentage of your time is spent on the day-to-day activities of running and operating your business vs. doing business planning, making your business better, more efficient, and

more profitable? What changes must you make about yourself in order to create a stronger business?

**PLANNING TOOLS:** Is there a plan, a budget, and written goals for the current year? Are you tracking results? How are you doing against the plan?

**PROBLEMS and ENERGY DRAINS:** What are your top 5 problems? Identify them. Handle and eliminate them.

**PRODUCTS and SERVICES:** Which products and services are selling/not selling (producing revenues)? Which products and services are profitable/not profitable (producing profits)? Focus on profits, not revenues. How do you assess the quality of your products and/or services? How do you stack up against your competition?

**SALES and MARKETING:** What sales goals have you established for each sales person? How is each sales person doing against his or her goals? What marketing tools are you using? How much are they costing you? Are you tracking the results of each marketing tool or marketing campaign? Which marketing investments are working for you?

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