120 Financial Lifelines For Small Businesses

By Ted J. Leverette
The Original Business Buyer Advocate ®

Compliments of and edited for Canadians
by Steven Beal, MBA, CPA, CGA, CFA, CBV, CBI, M&AMI

BEAL
Business Brokers & Advisors

Psst…

They have it.

You want it.

They do not want to give it to you.

This booklet tells you how to get it!

THE GOAL of this booklet is to be an
authoritative, useful and credible source
of essential facts, tips and strategies
on the subject of financing
for *small and midsize* businesses.

Ted J. Leverette
PartnerOnCall.com

Canadian Edition

This booklet is provided to you free by . . . Steven Beal, MBA, CPA, CGA, CFA, CBV, CBI, M&AMI of Winnipeg, MB because of what he knows and does:

Steven Beal is the founder of Beal Business Brokers & Advisors, a firm that specializes in helping individuals and businesses buy, sell, value, and improve their business. Prior to starting his brokerage and consulting practice sixteen years ago, Mr. Beal had an extensive, 15-year career at the Royal Bank of Canada in numerous corporate financial management positions requiring problem solving, business planning, logic and numerical acumen. Steve has an established reputation for insightful deal making and effective working relationships.

Steve obtained his Masters of Business Administration (MBA) from the Ivey School of Business in 1988, received his designation as a Chartered General Accountant (CGA) in 1996 and became a Chartered Financial Analyst (CFA) in 1999. In 2008, Mr. Beal earned his Certified Business Intermediary (CBI) designation, while in 2010, Mr. Beal achieved his Chartered Business Valuator's (CBV) designation. In 2018, he received the M&A Master Intermediary (M&AMI) designation.

Steve's primary roles include:

- Working with numerous business buyers and sellers through the preparation, marketing, and sale of a business;
- Working with a numerous of business owners on developing strategic action plans to grow or finance their company;
- Assisting clients in succession planning and analysis of their business in order to make specific recommendations to improve their business.
- Detailed valuation analyses on a variety of businesses for tax, estate, marital, and partnership issues.
- Managing a team of brokers and consultants assisting clients through the above processes. Steve is thoroughly familiar with all aspects of financial matters as they pertain to business and investment, having worked on "both sides of the street" in his career.

Steve is active at the director level in several non-profit organizations, and spent a year overseas working with a relief & development NGO in rural Africa. When not at work, he enjoys travel, keeping abreast of world events, and relaxing on his back porch with his wife, Lissa.

Awards

2017 Deal Maker Award (IBBA)

2017 Chairman's Circle Award (IBBA)

2018 Deal Maker Award (IBBA)

2019 Deal Maker Award (IBBA)

IBBA 2018 Chair's Award (IBBA)

www.bealbusinessbrokers.ca

steven@bealbusinessbrokers.ca

204-478-7266, ext. 110

WHO SHOULD READ THIS BOOKLET?

82% of businesses failed because they experienced cash flow problems;

77% of small business owners who apply for a bank loan from a big bank get rejected . . . according to an article on fundera.com: *What Percentage of Small Businesses Fail? And Other Similar Stats You Need to Know*.

This booklet is not full of unproved ivory-tower concepts or get-rich-quick nonsense dreamt up by some researcher or journalist. Every financing technique was either used by the author or the clients of either the author or his global network of consultant affiliates—or the author substantiated the technique's practicality.

This booklet is *not* for you if your world relates to things like: bonds (junk and otherwise), debentures, warrants, convertible stock, preferred stock, etc.

This guidebook contains information useful for privately-held businesses.

It is important to differentiate between information and experience. You will get information from this book. Unfortunately, you will not get the experience that gathered the information. That is why we are available to counsel you if you need help implementing our ideas.

Please contact us if you need help choosing the tactics that make the most sense for you or to implement them.

Ted Leverette's books:

How to Prepare Yourself and Find the Right Business to Buy

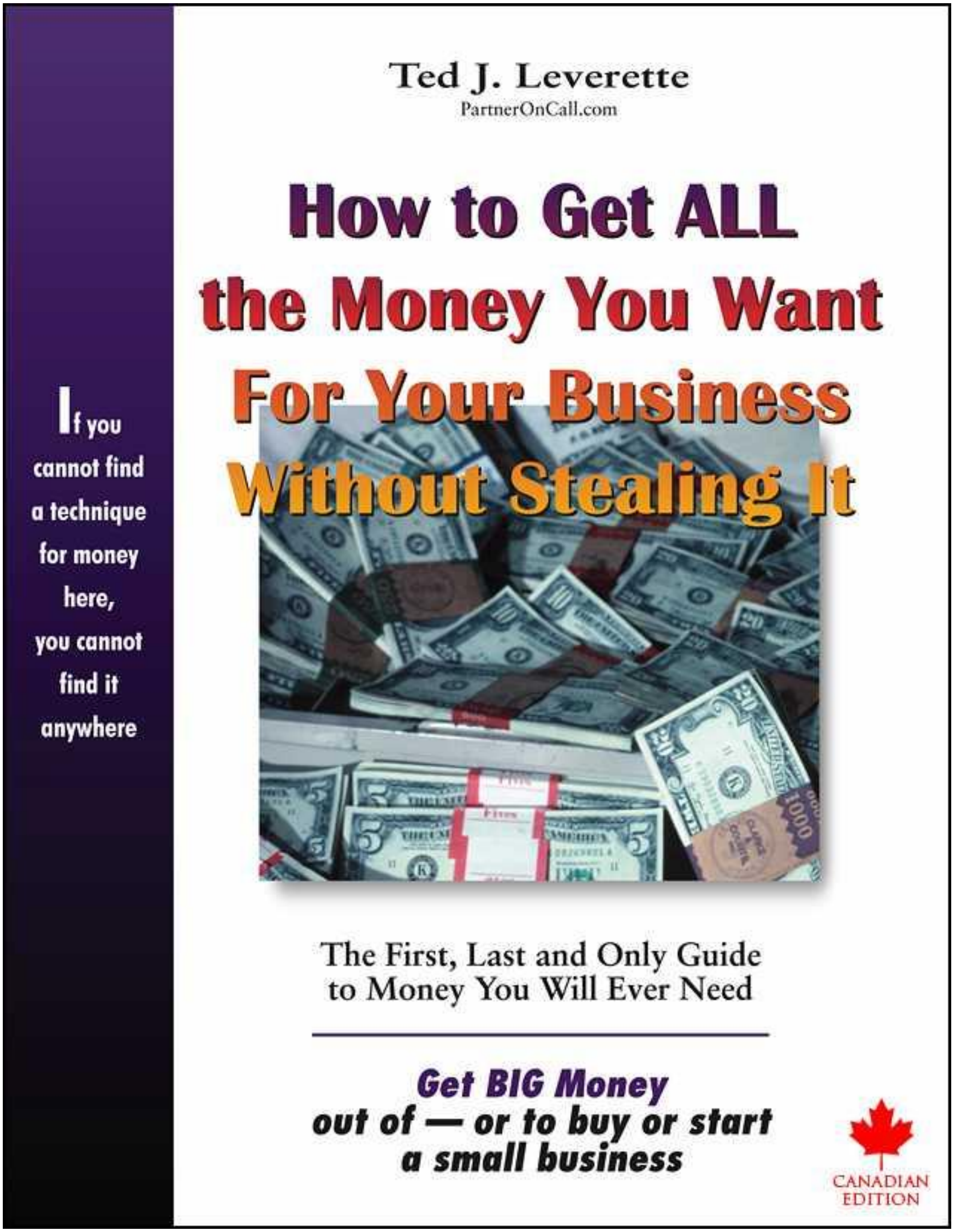
How to Buy the Right Business the Right Way—Dos, Don'ts & Profit Strategies

21st Century Entrepreneur Ideas for Kids and Aspirational Adults

How to Get ALL the Money You Want For Your Business Without Stealing It
(USA and Canadian versions.)

You're reading a special edition, an excerpt from Ted Leverette's book:

How to Get All the Money You Want For Your Business Without Stealing It



Ted J. Leverette
PartnerOnCall.com

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About the Author

I'm Ted Leverette, The Original Business Buyer Advocate ®
and founder of "Partner" On-Call Network, LLC.

Thank you for investing your valuable time
to read what I have to say.

"Partner" On-Call Network, is not a business brokerage,
nor do we sell businesses.

We show our clients how to earn more cash and squeeze
more cash out of a business they own or want to buy.

I hope you will use the tips in this booklet
to springboard yourself
into the success you deserve.

Best wishes!

Ted J. Leverette

Juicy Beginning

"The most difficult step any man takes
is the first one."
Norman Vincent Peale

The First Street-Smart Rule of Small Business Finance

Do not look to any single source as the only source. Simultaneous use of several sources can generate more total cash, with less downside exposure to you and your business — if later you must defer or default on payment.

Keep this in mind, the more money you get from a particular source, the harder they will come at you if they think their loan or investment is at risk.

Ounce of Prevention is Worth a Pound of Cure

Antidote for financial crisis: Planning.

Do it early, do it right, and cash will pour into your hands. Operate by the seat of your pants, and your dream of business ownership may become your living nightmare.

Perspective: According to a *Forbes* article, Steel Versus Silicon: "Of the 100 largest U.S. companies in 1917, only 15 of them exist today. The other 85 went bankrupt, were liquidated, were acquired or were left behind. A mistake, unless very quickly corrected, could be fatal. A small edge, expertly exploited, could rocket a small outfit way ahead of its competitors. Take nothing for granted. Examine every premise."

You may be reading this because you need cash, possibly because you are in business and want to seize a great opportunity or cover a cash crunch. Maybe you want to squeeze more cash out of your company or cash out by selling it. Or maybe you want to get into business and you are looking for ways to stretch your cash, or perhaps buy a business using creative financing. You will get ideas to handle all these reasons and more.

OPM—Other People's Money

Say you are a would-be business buyer. What if the seller requires a down payment and you do not have it?

If you do not have enough cash, use OPM—other people's money.

OPM comes from lenders and investors.

It also comes from refinancing the business you buy.

You cannot use OPM unless you KNOW how.

We are talking about the concept of leverage.

Important tip:
The best OPM is not borrowed.

There are four problems with borrowing:

1. You have to pay it back, maybe before you can or want.
2. You have to pay a specific interest rate and agree to a payment schedule that may get in your way of using the business' cash for other purposes—like to make more money.
3. You will dilute your Balance Sheet and tie-up assets (you pledge as collateral). This may restrict your ability to get future financing.
4. You may have to guarantee the loan with your personal assets.

The best OPM comes from investors.

These people do not expect short-term payments and profit as do lenders.

If your business is not profitable, they do not get a return on their investment.

If you are a business buyer, do you realize the average business brings in enough cash in one or two months to cover (recoup) your down payment? There is no rule that says you cannot use some of those dollars to fund your purchase. You just have to know how.

A lack of capital can be a handicap, but it need not be an obstacle!

There are many ways to make money and get control. Which is what you want, isn't it?

Why OPM is available.

Everyone knows that it is possible to *borrow* money—if you pledge enough collateral. But is it likely that you can get other people to *invest* in your business?

It is possible to get money from investors, if you understand why they invest and how to communicate with them.

At some point successful people are so busy managing the business they own, or the one they run for somebody else, that they do not have time for anything else. They are out of time, but they are not out of money.

Every month their stockpile of money grows as it is fed the profit from their business and investments.

What can they do with their cash?

- Invest in stocks? The first rule of safe investing is diversification. Big hitters have money in the public market, and some of them fund privately-held firms.)

- Real estate? Maybe, though that is not expected to be the best investment for the foreseeable future.

Some people want to make more profit on their money than their other investments generate. They are willing to take a bigger risk to get it, so they invest in privately-held companies—companies where somebody else has their life on the line, trying to make the firm grow.

The well-off investor’s strategy is: “Your brains and sweat, my money.”

They want you to bring them deals, companies you have packaged for acquisition. Some investors prefer to fund your growing business.

Affluent people got that way by being smart. They know to diversify their investments. They tell you their investment criteria, so you know if your offering qualifies.

You will like what they like (especially if you are searching for a company to buy), because they want to make money, and they know how to recognize money-making businesses.

They will not give you all their money, not even a lot of it. Maybe only $10,000. Maybe only $100,000. It depends on how much cash they have available when you present your proposal. And it depends on your company, and its potential for profit.

Is it easy to find these people? Yes. Finding is easy.

Convincing them to listen to you is hard.

When you know how to correctly present your offer to them, they listen and you have a chance at their money.

“There are always opportunities through which you can profit handsomely if you only will recognize and seize them.”

J. Paul Getty

Your bird-dogging for deals gives these investors leverage.

Your window of opportunity is brief. You must be able to move fast.

Tip

Legitimate investors will sign a confidentiality and noncompete agreement before you show them your deal. They will work through your lawyer, or your lawyer can work with theirs, so you minimize your risk when you discuss a joint venture.

INTERNAL FINANCING

Instant Cash — Raise Prices

Would you like to increase your business' profit 100% — today — with little or no additional risk or effort?

Application

The fastest way to generate more net cash is to raise the price you charge for products/services your business sells.

Consider changing pricing under the following circumstances:

1. When you are introducing a new product or service
2. When there is an addition to your product line that may affect the pricing of older items already in the line
3. When you wish to penetrate a new market or increase market share
4. During periods of inflation
5. During periods of depression
6. When you are about to change your strategy
7. When the product is in a different phase of its life cycle
8. When you are testing to find the "correct price"

What do you do if no one buys your product or service at your price? Here are five alternatives:

1. Lower the price: You accept less profit on each item in the hope that more of your product or service will be purchased.
2. Increase the price: Reposition your product in comparison with your competition's products, so your customer's perception of your product is better than they view your competition's products.
3. Reduce your costs: By doing this you can maintain the price and be profitable with the same number of unit sales.
4. Drop the product completely: This may sound drastic, but sometimes it is the wisest course of action.
5. Differentiate your product from that of your competition: You must do this if you establish a meet-the-street competitive price for a product. To accomplish this you emphasize quality, service, product performance, delivery time, financing arrangements, discounting or some other area of importance to your customer.

Advantages

It is the best way to create cash because its effect is immediate.

You do not have to pay it back (as occurs with equity or debt).

There is little or no incremental cost incurred to increase prices.

It improves "gross profit margin" (gross profit expressed as a percentage of sales), which is a key financial performance indicator for businesses with a cost of goods sold category on their P&L statement.

Even if the <u>quantity</u> of sales you make decreases as a result of higher prices, overall revenue and/or net profit could increase (because you make more profit on each sale).

Your customers could perceive your products as having higher quality. If so, your products may become more desirable, resulting in more demand.

Disadvantages

You run the risk of losing existing customers and/or not obtaining new customers if they believe your products are not worth the higher price or if your prices are materially out-of-line in comparison to your major competitors.

Tip

The most important rule is to test a price change. Begin by changing pricing for a sample you carefully select from your prospects and customers. If you do not detect a detrimental impact on your business, you can expand the test to include more prospects and customers. Be careful to keep your test duration to a minimum time period to ensure you minimize any potential ill-will.

It is usually easy, safe and profitable to increase your price 5% to 10% — unless you are in an industry with extreme competition and price is your customers' top concern when buying.

It might be feasible to increase price more than 10% if your customers *perceive* additional value in what you sell.

- Branding is one way to increase the perception of value.
- Another is to offer better or more service to support the product you sell.

"People who make money often make mistakes, and even have major setbacks, but they believe they will eventually prosper, and they see every setback as a lesson to be applied in their move toward success."

Jerry Gillies

Example

The business' cost of goods sold (COGS) is 40% of gross revenue at $1,000,000. If you increase price, but not the quantity of units sold, the percentage of COGS diminishes and the price increase flows directly to your bottom line.

The expenditure for overhead is fixed unless the company substantially increases the *quantity* of work it does. (A price increase does not necessarily add to the workload.)

	Current Pricing	% of Sales	**Price Up 5%**	% of Sales	**Price Up 10%**	% of Sales
Revenue	$1,000,000	100%	$1,050,000	100%	$1,100,000	100%
COGS	400,000	40%	400,000	38%	400,000	36%
Gross Profit	600,000	60%	650,000	62%	700,000	64%
Overhead	550,000	55%	550,000	52%	550,000	50%
Net Profit	$50,000	5%	$100,000	10%	$150,000	14%
Increase in Profit			$50,000		$100,000	
			100%		200%	

Notice how the ratios favorably improve in all categories.

Accelerate Accounts Receivable

Who says you have to send out monthly bills?

Application

Why not send bills weekly or daily?

Advantage

The sooner your customer gets your invoice, the sooner you get paid.

Tip

Accelerate collection of accounts receivable by offering customers a prompt payment discount. (Before you do this, raise your price by the discount so you net the same!)

Accounts Receivable Clerk Becomes Collection Commando

Customers who are slow-to-pay sometimes become no-pay, then you have to pay a collection agency up to 50% of the bill for collection.

Application

Instead, have an accounts receivable policy that keeps your clerk sending bills when they are supposed to be sent.

If your customer does not pay by the end of the grace period (if any), pay your clerk a bonus for collecting the account.

Advantage

It is cheaper than assigning the account to collections and your customer does not feel as much pressure (resentment), nor does it adversely impact his credit rating, as would occur if you send the account to a collection agency.

Tips

- Closely monitor any strained relationships with customers so you, not your employee, make business decisions on the handling of delinquent accounts.
- Create a clear payment policy and enforce it!
- Set up a standard series of delinquency letters and collection scripts.
- Make collection calls; they are usually more effective than collection letters.
- Work out progress payments. (Some cash is better than no cash.)
- Charge interest and/or fees on late payments.

Warning

Do not make it a habit to pay a bonus; your clerk might purposely delay collections so he/she can collect the bonus.

The older a receivable becomes, the less likely you are to collect full payment.

Advance on Your Salary

Of course, this works best when you or your spouse work for someone else.

Application

Use the cash for the business you own (in addition to being employed elsewhere).

Tip

If you are moonlighting in your own company when you are not working for your employer, money from a salary advance is a way to boot-strap your growing business.

Advertise for Dollars

Advertising for capital is another way to let potential investors know you are out there.

Application

Major newspapers and trade magazines have a *Capital Wanted* classified advertising section. Since newspaper ads are comparatively inexpensive, this can be a very economical way to find money for a business start-up.

Be prepared to take the time to screen calls.

Advantage

Advertising for capital can be a quick and cheap way to get the financing you need.

Disadvantages

Advertising in newspapers and trade journals, like any other method of finding financing, has its share of drawbacks. Since these ads are available to the general public, you can expect to spend considerable time screening calls.

You may also attract unscrupulous individuals attempting to scam you.

If confidentiality is an issue, your competitors can use your poor financial condition against you.

Bottom line: Advertising attracts the sharks, but if it is your only hope for money learn to swim with the sharks.

Warning

Get legal counsel to feel secure you will not get scammed. Also ensure you understand your provincial securities regulations.

Amortization Magic

This can have the effect of "raising" capital because it enables you to avoid having to get cash to cover seasonal negative cash flow (NCF). NCF can occur if you must make fixed payments from fluctuating revenue.

Tips

Increase the time period of the loan amortization so your periodic payments are smaller.

To retire the loan earlier than the amortization schedule would permit, make one or more balloon payments (perhaps annually), or double-up on installment payments. (A balloon payment is a payment at the end of a given time period.)

Warning

Check the fine print in your loan documentation before sending additional payments intended to solely reduce your principal. Some agreements do not permit this.

Canada Revenue Agency May Settle for Less Tax Than You Owe

It is a best-kept secret, but under certain conditions and if you or your tax advisor is a savvy negotiator, the CRA may be willing to compromise. In fact, that is what the CRA calls it— "offers in compromise." In other words, let's make a deal.

Application

Two arguments are available to you:

1. There is doubt as to your liability for the tax.
2. There is doubt as to the CRA's chance of collecting (all of) it from you.

While you are preparing to make your reasonable offer, the CRA is estimating the collection potential. It is also examining your cash flow to see how much you can afford to pay in installments.

Example

Sally had a business. Due to complicated circumstances she had to declare bankruptcy while owing the CRA back payroll taxes. The total of the Federal debt, with fines, was approximately $450,000. After a number of years, she finally signed an offer in compromise for $100,000.

GST/HST: Oftentimes the CRA will agree to a payment plan to recover GST owed by a company. Your business as a going concern may be worth more to them than if they were to act and close you down for non-payment. These unpaid sales taxes become operating capital in your business. Your provincial government may make a similar deal on PST for a similar reason.

Tip

The media has reported huge amounts of forgiveness, so do not overlook this if you get in a tax bind.

Warning

The government takes GST/HST and PST arrears seriously (just like withholding taxes, that is, CPP, EI, federal income taxes) as they are the government's money, not yours. Make sure you keep your books up to date and remit all withholding and sales taxes promptly.

Customers Pay Upon Placing Their Order

Customers may pay upon placing their order if they have the cash and you promise not to raise their prices for a specified time, or if you discount their invoice more than you do when you offer a prompt payment discount.

Application

Simply ask for payment to accompany the order. If the customer objects, offer an incentive.

The various levels of government will typically waive penalties <u>if</u> you stick to the negotiated payment plan.

Ask Customers to Prepay Part of Their Yearly Purchases

Good customers who predictably purchase from you may be a source of cash if you discount the value of their purchases.

Application

Collecting customer prepayments is effective, and it may be necessary, if your company is rapidly growing and experiences severe seasonal negative cash flow.

Advantage

- You can raise the money you need to reduce your cash flow problem without going to a financial institution.
- If your customer likes this arrangement, you can use it again next year.

Actual Case

A young company who sold manufacturing rights for a construction product always had a cash flow problem from February to July.

For the first six years, this growing firm had seasonal negative cash flow. Each year it would contact a few good customers and discount the customers' projected purchases for the upcoming year.

The company, because it had a high profit margin, could still earn a profit after discounting sales by 25%. Discounting sales to certain customers got the company over each year's difficult shortage.

In the final year that the firm had negative cash flow, it borrowed $200,000 from its customers.

Disadvantages

- Because you discounted future sales, you will report less revenue and lower profit.
- You informed your customer about your financial condition.

Ask for a Discount

You will not know if you do not ask (and maybe threaten to shop elsewhere).

Application

- Your landlord might reduce your rent or grant an extension of the current rent.
- Suppliers might reduce their prices—to help your business (and keep your account), if you agree to remit payment sooner or pay more interest.
- Your insurance agent can save you money without compromising your benefits if you tell him to do it.

Money in Lieu of Vacation

Your employer may permit you or your working spouse to take cash in lieu of vacation.

Application

Invest the cash in your business.

Example

A small business may be in a lurch whenever one of its few employees goes on vacation. Some owners are delighted to pay an employee additional money to stay at work.

Tenants Prepay Rent

Tenants may prepay rent if they have the cash and you promise not to raise their rent for a specified time. They may also prepay rent if you discount their rent.

Ask Your Customers

Survey your customers to measure their satisfaction with your business.

Application

During the survey, discover new ways you can make money from your *present* customers.

Ask customers to tell you what pleases them about your business, what products and/or services they would buy from you if you were to add them, and what you could do to improve their satisfaction with your product or service.

Tip

It costs six times as much to sell to a new customer compared to an existing customer.

When your customers make suggestions to you, exceed, not just meet, their expectations.

Assign Rent, Royalty, Commission, Note and Tax Refunds

If money is due to you from a creditworthy source, sell to an investor or lender your right to receive some or all of the payment(s) in return for cash up-front to you.

Disadvantage

You will have to accept less than the full amount that is due to you. Consider the time value of money when you determine how much of a discount you will accept.

Auctions and Going Out of Business Sales

You can furnish your office to look as successful as you want, equip your factory and obtain your inventory at pennies on the dollar.

Keep in mind these two facts of life:

1. You own used merchandise the day after you buy equipment, furnishings, fixtures or vehicles. An asset's market value (as opposed to its useful value) takes its biggest hit the date of purchase.
2. 80% of businesses go out of business. Many of them shut down during their first year or shortly after buying expensive assets (which the owner discovers the company cannot afford).

Application

You might only get $25,000 if you were to sell a delivery van you purchased yesterday for $30,000.

It is easy to profit from this: Let the other guy eat the overnight depreciation of *market* value, and buy recently purchased or fully serviceable assets at a huge discount from retail price.

Tips

- Contact auctioneers, liquidation firms, and bankrupt companies who are liquidating their assets.
- Contact refurbishing companies. Offer to selectively buy their inventory in "as-is" condition. By purchasing items before the company spends money to refurbish, the vendor can afford to pass along to you the good buy it made (adding a nominal markup for its profit).
- When a business is having a going out of business sale, ask the manager what they plan to do with their furnishings and equipment.
- Contact firms in your industry and other types of companies that use the types of assets your business uses. Ask if they have surplus assets for sale.
- Large companies regularly remodel. They use liquidation firms to sell "outdated" (to them, but in excellent condition) furniture and fixtures.

The author has known business owners who sold their small companies so they could devote full-time to buying, and selling for a profit, merchandise from auctions.

To find out what is available, simply ask the following organizations to put you on their mailing list. You will receive notices of auctions. Also ask each of these individual sources to tell you the title and source of the most current directory which lists all the auctioneers in various specialties (i.e., equipment, construction, aircraft, real estate, bankruptcy, tax lien confiscation).

- Local auction houses (for business liquidations and estate auction)
- Local commercial banks
- City Police
- RCMP
- Department of Justice
- Procurement services in your province
- Department of Defense
- Canada Revenue Agency
- Trucking and Railroad Companies

Don’t Want’er Seller

You will not need as much money if you learn how to buy products and services at a discount from don’t want’er sellers. A don’t want’er is someone that has something they don’t want any more.

Application

Dial for dollars.

The idea is to keep calling businesses that have products (inventory, equipment, furnishings, vehicles) your company needs, until you come across a don’t want’er seller. This is someone who wants to get rid of something but has not yet taken action. It could be the expensive piece of equipment that was replaced with another machine. It has been gathering dust for so long the owner has forgotten about it. Your inquiry causes him to remember that he intends to sell the asset, but never got around to it.

The beauty of this technique is you get to constantly shop in an auction environment which you control.

You will discover that most owners are so busy handling day-to-day issues they do not have time to dicker with you on price. Many will finance your purchase!

Avoid Taxes by Relocating

Avoid taxes by relocating part or all of your business (or personal domicile) to a province with lower or no taxation.

Tip

The form of a business entity, that is, corporation, partnership, or sole proprietorship, and specific provincial tax laws regarding the location of the business and the residence of the owner will have an impact on the tax liability. (You may own a business in one province, but have to pay taxes in another province because that is where you live.)

Bankruptcy

Bankruptcy is the ultimate form of debt forgiveness.

Advantage

Debt you do not have to pay is like money in the bank.

Warning

Use discretion before relying on bankruptcy to solve your financial problem, so it does not cause more problems than it solves. Understand all residual impacts.

Consult with an experienced bankruptcy lawyer before taking action.

The Companies' Creditor Arrangement Act

The Companies' Creditor Arrangement Act (or CCAA) allows businesses to re-organize their affairs short of going into full bankruptcy. This gives the current owners more discretion in re-arranging their affairs and making creditor proposals. Be careful! Only undertake such an arrangement with the advice of a lawyer experienced in such matters. Also note it is typically applicable to larger businesses - whose debts exceed $5 million.

The process:

- The debtor explains the business' situation and the plan to pay creditors.
- If the debtor and its creditors cannot agree on terms, the debtor or creditors can seek the protection of bankruptcy.

Advantages

An out-of-court adjustment procedure may produce a better result than a bankruptcy:

- Most firms that enter bankruptcy ultimately go out of business.
- The CCAA process collects timely information from the debtor and furnishes reports to creditors.
- The process reduces any time-wasting legal maneuvers and financially expensive aspects of a bankruptcy.
- Creditors who cooperate with a CCAA typically receive more money than they would if the debtor declares bankruptcy.

Barter

Barter exchanges are growing as a way for small businesses to get the things they need, when they do not have sufficient cash or credit to get them.

There are dozens barter exchanges in Canada conducting transactions. Use the search capability of the Internet to identify these organizations.

Application

Bartering is not limited to simple transactions such as the gardener doing landscaping for the baker in return for bread.

At a barter exchange people offer their goods or services. These are assigned a value in barter dollars. You use the barter dollars to get something from a participating business.

Some barter exchanges offer a credit line, basically an extension of barter credits, which allows a business to buy items from other exchange members before selling its own goods into the system. Expect the exchange to check your credit and vendor references. For larger credit lines you may have to sign a personal guarantee. Although you will pay interest on purchases you make with your credit line, you will be able to pay back principal and interest with bartered goods rather than cash.

Advantages

Bartering is an effective way to get rid of excess inventory and gain valuable assets.

Obtain value for goods that have limited appeal (perishable goods with an impending expiration date, surplus or seasonal goods, store returns and canceled orders) when other means of sale are not possible.

Discontinued items can be bartered after your normal channels of distribution will no longer accept the goods.

Bartering can develop new business separate from your cash business; you have a new source of revenue to buy products and services instead of using cash.

Disadvantages

The credit offered by some barter companies may not provide sufficient margin above your cost of goods. On low gross margin items, bartering could become a liability.

Unless you know you can use the barter credits in a timely fashion, the present value of cash received on the sale could be lower than any perceived benefits of a lengthy barter process.

Tips

If your goods will be redistributed by a barter company, obtain contractual agreement that the goods will not interfere with your normal channels of distribution, and the barter firm will not distribute your goods by means detrimental to you or your company.

Warnings

Barter income must be recorded and reported as you would record and report cash income. However, barter purchases for your business are also tax deductible.

Confirm the value of goods and services received from barter. (For example, when receiving on-air time from a radio or television station, make sure you are charged the correct rate, not prime-time rates for late-night air time.)

Become a Management Company

Instead of selling or licensing your know-how (of operating your company) to an out-of-area competitor, propose that the firm hire you to manage all or part of their business. Hiring you could be a wonderful investment for your client if your method of operation improves their business.

Branding

Let’s talk diamonds, specifically a diamond ring which will be a special gift from you to someone you love. The price you pay for the ring depends on where you buy it. You can buy the identical product from the jewelry counter at your local department store (they may have to order it for you) or from an exclusive jeweler, such as *Birks*.

Your recipient will feel more special about you and the gift if it comes in the Birks’ blue box.

You will feel more confident presenting a gift if it has a brand name which conveys something special.

Application

Branding, communicating about your product or service in a *conceptual package,* is what distinguishes you from your competition.

The idea behind branding is not so much to focus on the product, but to direct the attention of prospects toward what the product will do for them, how it will make them feel, the *special* benefits they will enjoy by having your product instead of a similar one from your competition.

Advantages

Nobody can take away from you the unique brand you establish.

Branding stimulates your prospect’s desire to buy from you.

Customers will eagerly pay a higher price if you enhance their awareness of your brand.

Branding works on nearly everything. Restaurants do it. Beer makers do it. What about manufacturers of vehicles, clothing, toys, sportswear? Procter & Gamble built an entire corporation with their savvy use of branding on the most mundane products. Lawyers and CPAs do it. Do you?

Disadvantages

There will be more administration because of the extra deposits you will have to make to your bank account (and do not forget the additional bookkeeping)!

You may experience “growing” pains as you build your brand (and raise price). Of course, there is time and expense to establish your brand.

Tip

The value of a brand is the difference between what customers will pay for the branded product versus an identical, non-branded product which is available from competing sources.

Make your product’s sale the result of an “impulse purchase.”

Social Media

Exchanging business operating tips and secrets with your local competition may not be something you would do. How about trading information with a similar business far away?

There are on-line groups for all industries – join one to learn how others work in other cities.

This trading of information with non-competitors helps you locally. Small businesses use them as a forum for giving and getting advice.

Warning

Be careful not to divulge trade secrets. You never know who is "listening" online.

Can't Give Raises? Give Titles

Can't afford to give raises to key employees?

Application

If you cannot afford to give *key* employees a raise, give them a fancier title. It is often just as appreciated and a great deal cheaper. Distribute titles (and awards) generously and often.

Advantages

Titles are FREE.

You boost the employee's self-esteem.

You reinforce the behaviors and results you desire in all employees, not just key employees.

Fancier titles can provide incentive for other employees to emulate the person with the new promotion.

Disadvantages

When you recognize an employee with a new title, it confirms that you value their contribution. Eventually you may have to reward them and their fancier title with more money (probably during the next performance review), particularly if you have increased their responsibilities to be compatible with the title.

Tips

To administer fancier titles as an effective method of recognizing and rewarding key employees, intersperse them with pay raises. Otherwise, employees become discouraged and the tactic loses its effect.

Maintain a consistency between the title and job description. To achieve the maximum effect of title recognition, allow for employee growth both in terms of additional job responsibilities and title escalation.

Warning

Constant use or abuse of new titles instead of monetary compensation is soon "discovered" by employees.

Cash Discounts from Suppliers

You will earn a huge return by taking advantage of prompt payment cash discounts your suppliers offer.

Advantages

On an annualized basis, 2%/10 days works out to 36%—you get 2% for paying 20 days early, you can turn 20 days 18 times a year 2% x 18 = 36%.

Compute how much money you will save each year by taking cash discounts.

Tips

Take the discount even if you do not pay within the deadline to qualify for the discount.

If you have several invoices due to the same vendor, pay one or two within the discount period on the same cheque as a number of overdue ones. Take discounts on all of them. There is a good chance they will all be allowed.

What is the worst thing that can happen if the vendor does not allow you to take the discount because you pay after the deadline? He will bill you. You can negotiate with him. Tell him that you might change vendors if he will not permit you to take the discount. Or, ask him to extend your payment terms—the effect of which is to give you a good yield on your money.

Warnings

If you are not a "valued customer" or if the supplier is the only one that sells what you need, playing hardball probably will not work.

If the supplier's credit terms are net 30 and you pay in 60 days, do not draw attention to your account. Your supplier may realize you pay late and put you on C.O.D. or raise the price you pay.

Be careful how you approach this. Build up a track record with a new supplier before you try taking unearned discounts. Suppliers scrutinize payment practices of new accounts more closely than established ones. Large computerized vendors usually have 5 to 10-day tolerances built into their accounts receivable software to allow for mail delays. Small vendors will notice your late payment but may cut you some slack if you have been a good customer.

Cash Advance

When you do not have enough money, get a cash advance against your credit card(s) if it makes more sense to pay by cash or cheque rather than credit card.

Disadvantages

Credit card companies charge cash advance fees which range from 1% to 2% of the amount of the advance.

Interest accrues immediately from the date of the advance (sometimes at a higher rate of interest than on purchases), regardless of whether or not you pay your balance in full at the end of the month. Cash advances may also trigger a loss in the normal “grace” period on your credit card charges.

Check Credit

Do not automatically give every new customer an open account.

Establish a reasonable credit and risk management policy.

Application

Any customer who wants you to extend credit should fill out a credit application. This application should include trade and bank references, the name of the applicant’s officers or owners and the person(s) in the applicant’s employ you should contact regarding account payable issues.

Tips

Make sure the application states your credit terms and what happens if the customer violates the terms (i.e., late payment, bounced cheque).

Thoroughly check references. This includes pulling a D&B report if it is a mid-or large-size business; or Transunion or Equifax.

If you decide that the credit is good, send the applicant a confirmation letter specifying your terms and indicating the credit limit.

Do not raise a credit limit prior to reviewing your customer’s payment history.

Collect Accounts Receivable

Your P&L statement can show a profit but you can go out of business because you are insolvent due to uncollected or slow receivables.

Application

If you fail to collect accounts receivable promptly, you may have to borrow to cover the shortfall—if you can find anyone who will make you a loan. The interest you pay could erode your profit. If that occurs, you will have a cash flow AND a profit problem.

Tip

Read the topic: “Accounts Receivable Clerk Becomes Collection Commando.”

Collect Bigger Security Deposits

This applies to your tenants if you own rental property, and it applies to first-time customers who do not have a credit history with you.

Advantage

Collecting (bigger) security deposits is like getting an interest-free loan.

Warning

The law in some provinces forces landlords to pay interest to tenants on the tenants’ deposits.

Some provinces require the landlord to keep tenant deposits in segregated bank account; commingling these funds with operating funds is not permissible.

Collect Delinquent Accounts Receivable—Keep Your Customer

It costs less to retain your present customers than it does to get new ones—even if they do not have a perfect payment history.

Application

An accurate accounts receivable aging report, updated weekly, is the key document in the management of your receivable balances. It provides you with the active credit accounts and the frequency of sales within those accounts. This report should enable you to know which customers owe the largest amount of receivable dollars and which accounts are outside your credit policy. Do not allow a customer to abuse your credit policy, and never to the point where other customers view it as an unfair competitive advantage.

Tips

Even good customers experience cash-flow problems. When you have a solid relationship with a customer and you expect the customer will pay you, retain your customer, and collect all the money he owes you by doing the following:

- Advise your customer that future purchases must be within your credit policy.
- Get his agreement that for every $1 of new purchases he makes from you, he will also pay off $2 of his past due account payable.
- When the account balance is current, advise him to stay within the dollar and payment limits, or it may be necessary to revoke his credit privilege.

Even if you do not tighten your credit policy, at least state it in your sales literature and order forms.

Raise your prices to allow for your cost of granting credit. 2% net 10 pricing (you give customers 2% off their bill if they pay within 10 days) is the same as collecting all the money in 60 days.

Advantages

Your customer will appreciate your cooperation and (hopefully) remember you in better times.

This tactic allows you to increase cash flow by collecting delinquent accounts receivable more rapidly (i.e., installments instead of a lump sum later).

Warning

You risk losing the goodwill of your other solid, reputable customers if you are not fair and reasonable in enforcing the terms of your credit policy.

Credit abuse is one of the ways for your customers to enjoy a secondary source of financing—interest-free at your expense!

Co-op Advertising

Some suppliers will contribute to your advertising budget if your ads also promote their product.

Application

There are several ways to get co-op advertising.

For example, a retail carpet business got co-op funds from carpet mills, based on a percentage of purchases from each mill. In addition, some vendors will give you money you can use at your discretion. For example, the manufacturer of the carpet contributed money for the co-op advertising, and the fiber producer provided discretionary cash. The fiber producers (DuPont, Monsanto, Allied Signal) budget discretionary funds for a season. They have to spend the funds or the funds will not be available (carry over) for the next season. They spend these funds with retailers who show them a plausible plan to promote the brand of fiber through a favored carpet manufacturer.

Thousands of dollars for each retailer exist in these discretionary cash pools.

Tip

Negotiate your best price for your purchase of goods from your supplier before you ask for co-op advertising dollars.

Corporate Discount

Show your business card to get a discount on the price of travel, vehicle rental and hotels.

Tip

When making a reservation, ask for the corporate discount.

Credit and Collection

Your cost of extending credit is a hidden cost that ties up your business' working capital and reduces your business' profitability. Every dollar owed to you is in effect "borrowing" because you have to rely on other money and lose the opportunity to invest that dollar.

Most business owners do not realize the true cost of customer credit. Do you grant credit because others grant credit? Have you included the cost of credit when you price your product or service?

Application

Assume it costs 1% per month to carry your accounts receivable.

If your revenue is $2,000,000 per year, average revenue per month is $167,000.

If your customers pay in 30 days, it costs you $1,670 per month to carry their debt. That is $20,000 per year!

What if they pay in 60 days? ($40,000 per year.) What about 90 days? ($60,000 per year.)

Tighten your credit policy so your average receivable is 20 days instead of 60 days. In this example, that earns you $27,000 per year.

Let's put it another way. Save $27,000 every year for 10 years. Invest it at a modest rate of return, and in 10 years you will have over half a million dollars!

Advantages

You have "found" money for other uses.

2% on the top line (revenue) is the same as 10-12% (or more) on the bottom line of your P&L statement.

Warnings

Your customers may resist if you push too hard, too fast.

Customer List

Why not sell your customer list to non-competitive businesses or to a list broker? Chances are other companies would like to market their products or services to the types of customers who patronize your firm.

Tip

Why not trade your customer list with a non-competitive business which caters to your customers? Control how often, when and by whom your list will be used to avoid conflicts with your use of the list. Include “seeds” in your list (i.e., fictitious names and addresses so you know when anybody uses your list).

Warning

Make sure such a sale does not violate Canadian anti-spam legislation (C.A.S.L.) or other privacy laws.

Defer Payments

It may wreck your credit rating, but robbing Peter to pay Paul may buy you time to solve a financial crisis or make a good investment.

Warning

Your vendor may stop shipping to you until you make payment, or it may ship only C.O.D. or, worse yet, C.B.D. (cash before delivery). Be prudent by having another supplier waiting in the wings in case this happens.

If you defer making payments, do not surprise your creditors. Tell them what you intend to do as early as possible.

Delinquent Payers Become Profit Center

Instead of complaining about slow-payers impose a reasonable late charge, either an increase in the interest rate or a fixed dollar penalty (which you may bill separately or add to the balance owed), or both.

In dollar terms, it will not seem like much to your customers, but the effective annual interest rate you earn is astronomical.

Deplete Inventory

This one-time boost for your bottom line might really help you.

Application

Before you order any item, be sure you have reduced the inventory of this item as low as you possibly can. This applies to everything, from pencils to the products you sell.

If you extend your accounts payable thirty days and reduce your inventory fifteen days, you reduce this year's cash outlay for goods and services by 12%:
(30 + 15) ÷ 365 = 12%.

Advantages

You are effectively not buying anything for forty-five days, and that is forty-five days of cost that you save, permanently! These savings go right to your bottom line instead of your vendors' bottom line.

Disadvantages

You will only be able to do this once, so be wise in its use.

Tips

Laziness or sloppiness is costly when you order more than necessary so you have inventory on hand, "just in case" you need it. It is expensive to order large quantities, simply to avoid frequent re-ordering.

Contact your vendors on critical inventory items. As you minimize your carrying costs of these items, make sure your vendors can quickly replenish stock. Some vendors will stock for you; the common term is "just in time delivery."

Selecting your vendors based on their order/delivery time and shipping and handling commitment might prove as important as price.

Warnings

If you are already 45 - 60 days out on your accounts payable, this probably will not work.

For key, profit-generating items the cost of being out-of-stock can be immediate (a lost sale today) and long-term (a lost customer forever).

Discount Your Note or Other Receivable

If you or your business took back a note from a buyer in connection to the sale of real property or your business, you might be able to sell the note for cash to an investor.

Expect to get 70% to 80% of the face value (or unpaid balance) of the note, depending upon the creditworthiness of the borrower and the collateral which serves as security.

Application

You can quickly raise cash by selling nearly any type of future stream of payments due you from a creditworthy source:

- Accounts receivable
- Annuity
- Inheritance
- Installment note
- Invoices
- Leases (commercial)
- Lottery winning
- Mortgage
- Note receivable
- Structured legal settlement
- Tax refund
- Trust deed
- Trust payout
- Workers' compensation

Tips

Start your search for a buyer by looking online in social media, such as LinkedIn.

You can also find investors and lenders on the Internet. Use key-word searches: seller financing; take back a note; carry-back financing; sell a note; alternative financing; note buyers; investment clubs; capital network.

The earlier in the transaction the buyer of the financial instrument is part of the closing process (i.e., escrow procedure for the purchase/sale of the property or business), the smoother and faster funding can happen.

You do not have to sell the entire payment stream. It is possible to sell the payment stream for the first few years of a long-term note, keeping the more distant payments (which the investor might perceive as having a higher risk). The amount of discount you must suffer is based upon the investor's perception of risk.

Warning

Discounting of business notes is an unregulated industry. Shop around for the best offer. Obtain a written bid and purchase commitment. Understand the true cost of financing on an annualized basis – a 5% discount on a 30-day receivable annualizes to more than 60%!

Diversify to Survive

If your business begins to stagnate even if it is not losing money, or if your profit is not what you desire, you can improve profit by diversifying.

Application

Diversification can be as simple as taking your equipment and employees and finding something for them to do during downtimes.

Some of the more basic examples include restaurant owners going into the catering business, and machine shop owners adding second or third shifts.

Diversification can also relate to where you sell your products. Instead of merely selling your product over the counter, why not get your products into a catalog or sell them through a dealer network?

Advantage

When you diversify, you open yourself to new markets.

Warning

The key with diversification is not to spread yourself too thin.

Do not forget what business segments make you the most profit.

Diversification into a non-profitable product or location can be fatal.

Employee-Sharing

You employ an indispensable employee, but the job is not big enough to fill his/her workweek.

Application

Act like a temporary agency.

Rent your employee's non-productive time to another business, preferably not your competitor.

Excess Inventory or Equipment

Have a business "garage sale." Unload non-productive inventory and equipment.

Applicable to a business *buyer*: Get the seller to accept some of your down payment in near-term installments. As soon as you are in control of the business, sell or return to suppliers for a cash refund:

- Excess inventory
- Equipment

- Furnishings
- Vehicles

Use the cash to make the down payment.

Exclusive (Master) Distributorship

Your firm will not need as much money for its marketing and selling expense if you grant a license to a distribution company to represent some or all of your product line in one or more marketplaces.

Depending on your product line, some distributors have the capability to service what they sell, so you can devote your attention to product development and production.

Advantage

If a distributor pays its own sales and marketing expenses in return for a higher commission you only incur marketing expense (i.e., commission) if the distributor sells your product.

Fire Salesmen—Hire Distributors

Independent sales agents, manufacturer representatives and distributors may have more capability and incentive to sell your product than your in-house sales force.

Advantages

Based on their years of doing business, many distributors have developed excellent relationships with your customers and your prospective customers. As a result, a distributor can reach new customers and increase your sales volume.

Employing distributors rather than a sales force switches your selling costs from a fixed cost to a variable cost. Also, the administration costs are less since you do not have to handle items such as company cars, travel expense and employee benefits.

Disadvantages

You must balance the number of distributors with the size of your business. If your products comprise a small percentage of the distributor's sales, your products may receive insufficient sales attention. On the other hand, if you hire numerous, smaller distributors you may become overburdened trying to manage them.

You have less control over distributors than an in-house sales force.

You lose control of the marketing of your product—you can save on sales expense but lose product sales. The distributor may not have the same motivation as you to sell your product.

The distributor can also erode your marketing plan by charging more that you would.

Tips

Instead of prepaying for sales help (employees), pay a commission when your customer pays you.

Ask your customers to tell you who they believe are the best distributors.

Analyze your sales trends, products' servicing needs and marketing plan.

Hiring a few telemarketers could be the most efficient sales coverage for you, assuming your products do not require the on-site servicing of a salesperson, are well established in the market, and new products/markets are not in development.

Warning

Some distributors simply collect their commissions as your product sells itself based on its reputation and word of mouth; these distributors will not look for opportunities to expand your sales. To alleviate this problem, you can pay a commission for repeat sales and a higher commission for sales to new customers or incremental sales to existing customers.

Lay Off — Yourself

Lay yourself off from the company you own, and then collect severance and unemployment benefits.

A variation of this theme—if you work for a firm you do not own *and* you need capital to buy a business, to start a business, or to grow one you already own.

You can choose to get fired or resign, but be sure to negotiate a fat severance package before you pull the trigger.

Tip

Owners and stockholders can exempt themselves so their company does not pay Employment Insurance (EI). If your firm does not contribute for you, you cannot collect!

Warning

Seek legal advice from a lawyer who specializes in this field before you take action.

Franchise or License It — Do Not Sell It

Want your cake and eat it, too? Franchise or license your business' know-how and operating procedures — do not sell them.

If you merely sell your business, you (might) collect the price from your buyer with nothing more forthcoming. You get some cash but no continuing source of income.

Application

Why not join one of the most rapidly growing business phenomenons? Get other people to pay you money up-front, and possibly a royalty on their business revenue, for the term of the license you grant. It is like selling hundreds of clones of your business without having to open, operate and sell them as going concerns.

You do not think your business qualifies? Ha!

Look at the ads in magazines such as *Entrepreneur* or *Success*. People pay good money for a turnkey business which cleans houses, fixes bathtubs, makes bagels, creates gift baskets, sells balloons, takes aerial pictures, recharges laser printer cartridges, washes mini-blinds, details vehicles…

If your business makes good money and you can document its system of operation, see a consultant who knows how to clone businesses.

Oh, one more thing: You are not ready to sell, but you want to expand? Think franchising or licensing.

Tip

The less dependent the success of your business is on you, the more valuable it is (and easier to replicate via franchising or licensing).

Free Advertising

Otherwise known as publicity.

Stop reading right now. Go out and buy a how-to book that explains how you can get the media and everyone who knows you to talk it up about your business.

Whatever somebody else says about you (even if you make it happen) is more persuasive on the listener or reader than your advertising and claims.

Go to Bid — Frequently

Every price increase you accept without a competitive bid diminishes your profit and jeopardizes your competitive position.

Application

Try announcing to your suppliers that every time they increase their price to you, it will trigger an automatic, competitive bid.

Advantages

You will instantly reduce the number of price increases.

Disadvantages

A loyal supplier who has worked hard to earn your business may feel alienated by this policy. If your vendor provides the best value (lowest prices combined with the best service) available on the market and the vendor chooses not to participate in the bid process, your costs will increase and you might end up with a less desirable supplier.

Competitive bidding forces suppliers to focus on price. Often ancillary services decline. To provide the lowest price, the supplier may not:

- Maintain a sufficient inventory to fill orders on a timely basis.
- Meet your demands for rush orders.
- Provide on-site service personnel (salespeople and technicians).
- Supply free data and analyses that are useful in managing your business.

Tips

Ask your vendor to rationalize each price increase. If you do, it is likely your increases will be smaller. Predictable, annual increases (usually around 5%) will no longer be a "cost of doing business."

For every important or even not so important item, do one of two things at least once a year.

1. Ask your suppliers for a bid price on the items you purchase or, if that's too much trouble—
2. Tell your suppliers you are going to do it. It works almost as well. Imagine the money you will save on price increases.

Warnings

Suppliers attempt to balance their low bid price by increasing or instituting setup charges and other administrative fees or changing credit terms. To ensure the lowest overall price, the bids must include all possible charges.

Require suppliers to submit bids in a strictly controlled format using product "specifications." This eliminates the problem of differentiating between apples and oranges and ensures there are no hidden costs; all bidders are evaluated on the same criteria.

Remember: "Bulls make money, bears make money and pigs get slaughtered."

Do not over-use the "threat" of a bid every time you need to lower your costs; you risk having the supplier reject you.

Group Purchasing

Known as buying co-ops—you can buy nearly anything on better terms than you can negotiate as an individual purchaser, regardless of how big you are.

Tip

Put every expense to this test: Can you buy it cheaper through a co-op?

Ask your trade association for the names of group purchasing organizations.

Group purchasing organizations usually get a small percentage of the amount they save you.

If you cannot find group purchasing organizations that cover products and services that represent a large part of your expenditures, start one with your competitors and other businesses.

Garage Sale

No, not your home furnishings and all those trinkets you bought while on vacation.

Sell assets your business does not use (or profit from using).

Increase Revenue

Sure, it is the old-fashioned way to get money—you earn it. One way to do this is to never send an invoice to your customers without including your advertisement or special offer for one of your products or services, something you want your customer to try or buy more of right NOW.

Increase the Deductible on Your Insurance

By partially self-insuring you can substantially reduce the premium you pay. Risk-management is the name of the game; play it wisely.

Incubators

Corporate incubators are a way for several small businesses that could not survive on their own to pool their resources under one roof.

Application

Business incubators do more than cut down on overhead costs, most offer consulting services to the businesses they house.

The backers of incubators vary from provincially sponsored agencies to universities to wealthy philanthropists. Their motives can vary from being profit driven, wanting to help the little guy, or wanting to stimulate the local economy.

Advantage

Most businesses in incubators have a very high rate of success. This can be attributed to the fact that incubators carefully screen their applicants, letting in only the ones with the best chance for success, and the continuing counsel and support the incubator provides companies under its wing. The administrator of the incubator makes sure its companies have a comprehensive business plan, and that they follow it.

Incubators can offer all types of support services including office or production space, clerical help, technical or business counsel, and time on a computer that a small business might not be able to afford.

In addition to the technical support incubators provide there is the emotional support and advice that businesspeople share with each other.

Ask your local Chamber of Commerce and bankers for the names of local incubators.

Independent Contractors

Independent contractors can be hazardous to your business.

Application

Most business owners realize that Canada Revenue Agency (CRA) looks with a suspicious eye when they examine the company’s relationship with its employees and independent contractors. Your tax advisor can explain the tests the taxman uses to determine whether what you classify as an independent contractor is, in reality, an employee.

What most owners do not know, however, is independent contractors are suing their employers and winning huge retroactive amounts. The issue is employee benefits: employment insurance, workers’ compensation, overtime pay, vacation pay, pension, profit sharing, health insurance, etc. These independent contractors, sometimes years later, claim their employer tricked them or induced them to accept independent contractor status in return for employment.

It is short-sighted to take such a risk if what you are trying to do is reduce payroll taxes and other costs of employing people.

Warning

Failure to comply with the law and business common sense can quickly put you out of business when the CRA seizes your bank account and other assets (without notice) or you lose a lawsuit to a former or present “independent contractor.”

You may think you are “home-free” if your tax advisor says your independent contractor relationships comply with tax law, but you may be in jeopardy.

Seek legal counsel from a labour lawyer with expertise on the topic of independent contractors suing you for benefits—even if your independent contractors do not deserve payment nor are legally entitled to them—they could sue to force a cash settlement.

When conferring with your lawyer, widen the scope of your discussion beyond independent contractors to include "temporary help," "employee leasing or renting," "part-time employees," and "payroll service."

Inventory

Three tactics to raise cash:

1. Sell excess inventory.
2. Borrow against it (finished goods only).
3. Decrease your investment in inventory (which increases the number of turns each year).

Inventory in a Retail Business

Do what the grocery stores and large retail chain stores do: LOOK FULL.

Application

In the grocery business they always position the inventory toward the front of the shelf. This way it does not appear there are any empty shelves. The large chain stores look full by stacking products on top of empty boxes.

Advantages

This can give the warehouse effect without spending thousands on inventory.

Use the money you save to invest in an advertising campaign or for another good purpose.

Invest Cash

Maintain only the minimum balance your bank requires for your chequing account. Immediately transfer surplus cash (even for a few days if the sum is significant) to your bank savings account or a money market fund.

Joint Venture

It is simple: You make the product; your joint venture partner sells it (or vice versa).

Advantage

This permits each of you to focus your resources on one part of the business (your strength) rather than diluting your effort across two or more functions.

Tips

- What exactly is your strongest and weakest function(s)?
- Find a "partner" whose strength is your weakness and your strength is their weakness.
- Sign a mutual confidentiality and trade secret agreement before revealing sensitive information.
- Compare business plans, cash flow and "personality."
- Hire an intermediary to help you and your potential partner see the advantages and disadvantages of cooperation, and to document your transaction for a win-win deal.

Lease—CAM Fees

CAM means common area maintenance. Before you agree to lease space in a business park or office complex, find out what the common area fees are. These fees are the owner's costs to run the entire property. The total cost is divided by the prorata share each tenant has. The landlord passes along these fees to the tenants on a monthly basis, with an annual summary and adjustment.

Warning

It will be too late to argue with the lessor after you sign your lease.

Lease Option

You can save a lot of money if you negotiate extensions of your lease, including firm future rental rates.

Application

The time to arrange a lease option is when you agree to the terms in your base (beginning) period.

Tips

Be sure if you decide to stay in the premises there is no doubt as to what the rate will be.

Or, if you are unable to decide on the exact dollar amount, write clear language into the lease that will enable you to determine what your lease rates will be without incurring expensive mediation at the end of the base period.

Warning

An option with the wording, "renewable at the going market rate" is NOT wise. Your advantage with a lease option is to fix a specific rate for the option period.

Lease—Sublease

Most leases contain a sublease clause.

Application

Be sure your lease permits you to sublease all or part of your property if you need to move to a different location or sell your business.

Advantage

You can negotiate a higher rental rate with *your* tenant than you pay your landlord, and pocket the difference.

Warning

Your lease must explicitly permit you to sublease, and to profit on it.

Lease Type

There are two principal types of leases: a gross lease in which the lessor pays all the costs to run his property or a net lease in which the lessee pays the costs.

Tips

Try to get a gross lease. You will save a great deal of money over the life of your lease if you are able to negotiate this form of lease.

If the lessor insists on a net lease, find out exactly what the monthly net charges per foot will be and whether you will be responsible for utility charges in addition (or separately) from operating expenses.

Make sure your space is the size your lease states. Often the landlord works off inaccurate building plans and you may pay for more space than you actually have.

Warning

You cannot afford to be surprised when the lessor charges you for the operating costs of the premises after you have signed the lease.

Lease — Personal Guarantee

Rather than guarantee the full amount of your premise's lease for the entire term of the lease, try for the guarantee to specifically provide for its reduction in amounts equal to rent you have paid.

Or, only guarantee a limited amount of the lease obligation, such as a value equal to six months' rent. This assures the landlord that if you default on the lease, he has six months to evict you and to find your replacement. If a replacement tenant is found within the period you guarantee to pay, after the date of your default, the landlord should not lose any money and you will have averted guaranteeing more of the lease than is necessary.

Tips

Remember to negotiate who pays for changes to the space (tenant improvements) when you vacate, to prepare it for the next tenant.

Ask the landlord how quickly he thinks he could lease the space to another tenant if you were to terminate your lease prior to the end of its term. If your landlord says one to three months, ask him to include an escape clause in your lease that gives you the right of early termination. If you give your landlord your notice of intent to vacate, you pay up to 90 days rent in exchange for the landlord releasing you from any other financial obligation which relates to the lease. It is similar to a liquidated damage clause which limits your risk in the event you default.

Property Inspection

Before you sign a new lease/sublease, obtain a recent physical inspection report which certifies your new property will not cost you money for repairs in the first months of your tenancy.

Ask your lessor to certify these items are free from all defects including "latent" defects or malfunctions: Structural, roof, electrical/plumbing, heating/ventilation/air conditioning and toxic/environmental issues. There are more elements to check out but these are vital.

Warning

Beware of any property offered to you in "as is" condition. Money you save is worth more than the money you have to earn or raise.

Make the Sale — Then Make the Product

Catalog firms do this all the time. So do distribution and manufacturing companies. And retailers (who sell from an in-store sample).

Application

Collect a deposit or full payment; promise delivery later.

Negotiate

Give the other side a good reason to sell to you at a lower price, with less expensive financing, or extend the term for installment payments. Remember, negotiation is as much an art as a science.

Offer Cash Rebates

Keep your price high (within reason). Offer customers a cash rebate. All they have to do is follow the rules (i.e., fill out a lengthy form, provide a copy of their sales receipt and proof of payment and do it by the deadline).

Advantage

Your mere offer of a rebate builds goodwill.

Lots of customers will put your rebate form in their to-do tray and never redeem it.

On-Premises Concession

You have seen them, but maybe you have not recognized them for what they are.

- You are in a supermarket; in one corner is a bakery.
- You are at a gas station. Housed in a booth near the exit to the street is a drive-up coffee bar.

The market and the gas station may not own these ventures. They might be independent businesses. The proprietor rents space from the host business and gets the benefit of the host's customer traffic.

Tip

If you have extra space, what type of non-competitive firm could operate from that space? What about your warehouse? Could a startup, small manufacturing or distribution firm set up shop there?

What about vending machines? Vending firms will pay you for the space you provide.

Outsource

There is no rule that says your firm must handle every task.

Application

You can increase your profit and reduce your cash disbursements, investment and risk by paying an outside (independent) firm to do some or all the tasks that relate to marketing, distribution, and/or manufacturing.

This tactic works well when you introduce a new product or service. You minimize capital expenditures when you outsource during the introduction. When the product and/or service succeed in the marketplace, you can decide if it is wise to invest your capital and labour instead of outsourcing.

Manufacturing firms with excess capacity, for example, might be eager to produce your product for you. (If your firm has excess capacity or particular talent, you can sell your capability to other businesses.)

It is also possible for you to borrow money you outsource to.

Example

A contract-manufacturer who works for your firm might provide money if the vendor thinks its investment in the functions you do in-house will grow your firm, which leads to you purchasing greater quantities from the vendor.

Discontinued Merchandise/Seconds

Discontinued merchandise are surplus manufacturing runs and end-of-season or model year products that did not sell when they were supposed to.

Application

You can buy at a steep discount (sometimes pennies on the dollar).

If you are the seller, it may be more profitable to sell excess products at a discount (even below cost) than to inventory the goods or discard them.

When purchasing discontinued goods do not expect attentive customer service, return privilege or financing.

Tip

Let vendors to your industry know you want them to offer discontinued merchandise to you. Remind them of your interest at the conclusion of the vendors' selling season.

Warning

Before purchasing discontinued goods, be certain you can profitably use or sell them.

Sellers must consider the possible adverse impact on their business: Will the steeply discounted sale of merchandise affect the company's reputation, competitive position, or defer or reduce future sales to customers who may wait for the next sale?

Partial Liquidation

To raise cash sell surplus, outdated or obsolete inventory, machinery, equipment and fixtures.

Pawn It

I know—it feels like collecting unemployment. Cash is cash. Get it where you can.

Pay-for-Performance

You can hire advertising agencies to create advertisements, promotions and publicity releases without paying an up-front fixed fee (i.e., retainer, project fee, per diem or hourly charges).

Application

Instead negotiate a payment structure that rewards the agency once you approve work that the agency presents.

The agency creates numerous creative concepts consistent with a strategic briefing you provide.

Payment is triggered when you accept one or more concepts.

You provide additional incentive to an agency by selecting them to turn their creative concept into your advertisement.

Advantages

Upgrade from either no marketing effort or in-house effort to the expertise of advertising, promotion and public relations professionals with none or little of your money at risk.

Generate new ideas and inject fresh thinking from experts into your business.

Disadvantages

When the ideas presented are unacceptable and the agency is unwilling to develop additional concepts, you lose valuable time — time when a successful effort would be producing sales.

Since the agency is initially working for free, do not expect them to meet rush deadlines.

Tips

Carefully select an agency to work on a pay-for-performance basis, just like you would select an agency under normal circumstances. You will invest time and energy in the relationship.

Your payment for successful ideas must be sufficient for the agency to forego their usual fee. Depending on the type of agency, the payment structure should provide upside potential if they develop numerous concepts that you accept. After all, you now have their ideas.

Try fresh talent just starting out or perhaps someone in a firm you have been dealing with who wants to strike out on their own.

The ultimate pay-for-performance deal is to link payment to increases in your revenue for products and services to which the agency's effort applies.

Warning

If an agency's time is booked, or they think it is possible they could be booked in the near future, they usually will not take on this type of assignment.

Any marketing programs you implement must be distinctly different from ideas you rejected (and therefore did not pay to use).

Registered Pension Plan

Set up a Registered Pension Plan to defer income tax.

An RPP provides greater flexibility (and limits) than RRSPs.

Borrow from your plan to raise cash and pay yourself tax-deferred interest. Your payment goes into your own pension plan.

Per Inquiry and Per Order Sales

It is possible to convince the media (TV, radio, magazine) to run ads at no up-front cost to you. You agree to pay the media a fixed dollar amount per *inquiry* or a percentage of revenue on *orders* from customers who respond to your advertisement.

The basis for computing what you pay is the media's estimate of the number of inquiries your advertisement will draw. It can be a few dollars per inquiry, up to 50% of gross revenue. But do not fret—wouldn't you rather earn 50% of a sale with no downside risk instead of not making any sale?

To ensure you make payment, the media may require your advertisement to contain the telephone number for the media's order desk. The media forwards the leads to you when you pay for them or customers may place orders through an intermediary. Some intermediaries take the order, collect payment and disburse funds to you and the media. Others handle order fulfillment or assign fulfillment to you.

There are many variations of this technique, so do not pass up this idea because you do not like the explanation of how it works. Ask media organizations to explain their terms.

Tips

The media may tell you it does not offer this type of program. Do not believe it. Stay in touch with advertising representatives. Be persistent. Ask them to call you if they have surplus (unsold) space to fill. Their call to you usually occurs the day of their deadline for advertisers to submit copy. Imagine the media's predicament when their advertiser cancels an insertion order at the last minute. There is your opportunity.

This tactic alone probably will not give you enough exposure. Combine it with paid advertising and other forms of promotion.

Do not waste your time cold-calling advertising representatives. Follow this sequence:

- Request a media kit from the medium. It reveals information about advertising prices and procedures. It explains the demographics of the medium's audience.
- Identify the person who would handle your account. Do not call for an introductory conversation.
- Mail this person promotional information about whatever it is you wish to advertise and a copy of the advertisement you think might generate inquiries. In your cover letter, ask the rep to call you if he or she believes the medium's audience would have interest in your product and respond to your advertising. You have set the hook if the rep calls you.
- During your telephone interview, put the representative on the defensive by asking the representative to substantiate why he/she believes your advertising in the medium will be profitable for you.
- End the telephone conversation sounding unconvinced. Ask the representative if there is any way you can test the effectiveness of the medium without committing to an expensive advertisement. Do not suggest anything; listen.
- If the representative does not offer a substantial concession, tell the representative you are interviewing other media, and you might call back to discuss an advertisement.
- About one week prior to the medium's deadline for submission of insertion orders, again call the representative. (The media kit discloses the deadline.) Ask if there is any unsold space. Ask for a remnant rate (i.e., it steeply discounts the retail price). If a remnant rate is not available, ask about P.I. (per inquiry) or P.O. (per order).
- Stay in touch every month, by letter and telephone. Persistence pays!

Advantages

Use this idea to test the drawing power of your first-time advertisement in a media if you are not sure your product will appeal to the media's audience.

This technique enables you to test-market an idea before you gear up for full production or launch an expensive, mass marketing campaign.

Prepay for a Discount

Ask your creditor how much it will reduce your price if you prepay prior to receiving delivery or if you pay an installment note earlier than scheduled. Discounts can be substantial, especially if the creditor is having a cash crisis and needs the money. Continuously think *payment schedule*.

Professional Fees

You need a competent business advisor, lawyer and CPA to help you make money and avoid risk. You do not have to pay their entire bill when they wish. Ask them to accept installment payments — perhaps defer the first one until your business can better afford to pay.

Purchasing as a Profit Center

Purchasing can be a profit center if you buy goods and services at a substantial discount.

The best negotiators pay at least seven percent less than their suppliers' lowest wholesale price.

Tips

The best opportunity to pay less than wholesale is to buy the balance of an inventory of item(s) the supplier intends to eliminate from inventory.

Another buying opportunity arises when a supplier suffers a manufacturing problem, over-produces an item, or is having a cash flow crunch and needs cash fast.

Buy the supplier's seconds (fully serviceable products with minor manufacturing flaws).

Warning

In your zeal to seize a bargain, do not invest more cash than your business can afford or buy inventory you cannot efficiently turn over.

Quality Pays

Live and breathe quality even at the cost of lower productivity because it will always cost more to build the product twice!

Rework and errors cost you more than you may know in direct and indirect cost and reputation.

There is no truth to: "There's never enough time to do it right—
but always enough to do it over."

Refer Customers

Collect a sales commission whenever you refer a new customer to another business.

Example

A graphic design firm refers its client to a printer who pays a fee to the designer. The printer refers its customer to a mailing service who handles the customer's direct mail campaign. The mailing firm refers its client to a company that receives orders on behalf of its clients and provides a fulfillment service. Get the point? Feed the food chain.

Remnant Rate

It is a secret that the media does not want you to know. What do you think happens when an advertising medium cannot sell all its available space or time? They offer it at a steep discount.

Application

You have to insist on being made aware of it.

You must commit on the spot when the advertising representative calls you to say space is available—because they wait until the last minute, hoping their usual customers will step up and pay full freight.

Rent or Lease

If cash is scarce, instead of buying you can rent or lease business premises, equipment and furnishings.

Advantage

Doing so preserves your cash.

Return Inventory

Return inventory to your supplier.

Application

You may be able to sell inventory back to the supplier so long as it is in its original packing carton and in salable condition.

There are vendors who impose a restocking charge. It is generally based on a percentage of the value of the shipment. Ask about your vendor's restocking policy before you order.

Tip

You might be able to get your vendor(s) to waive the restocking charge if your company is a good customer and/or your business is increasing its purchases from your supplier(s).

Royalty

A royalty is an off-Balance Sheet financing vehicle.

Application

An investor receives a percentage of your company's revenue in return for advancing money to you.

The royalty may apply to all of the company's revenue or to the revenue a particular product or product line generates.

Tips

Perform a sensitivity analysis to determine which royalty percentage maximizes cash flow under a variety of scenarios while still appealing to investors. In addition to profit margin, key variables include advertising and promotion and selling expenses, as well as seasonality.

Be creative in developing the royalty payment schedule. Examples are increasing the royalty as sales decrease or decreasing the royalty as sales increase.

Cap royalty payments to end after the investor has been well-rewarded for the level of risk endured.

Often the royalty percentage is set between two to seven percent of net sales (gross sales minus returns, cash discounts and any off-invoice allowances): rarely is the percentage above 10%.

Normally, royalty payments don't exceed seven years in duration.

To overcome a capital shortfall, especially to fund aggressive, profitable growth, tell investors (usually private parties) you will pay whichever is greater:

- A minimum rate of interest (perhaps prime) — payable periodically or
- A royalty on some or all of the gross revenue your firm collects.

This attracts the type of money-bags who like to invest in small firms. The royalty twist may give them a higher return and an easier exit plan than owning a minority interest in your company.

Advantages

This tactic may be better for your cash flow than straight financing with fixed payments, because the royalty payment adjusts as revenue changes.

It avoids an adverse effect on your Balance Sheet.

You retain full control of your business.

Disadvantage

A royalty payment may be a small percentage of your gross revenue yet consume too much net income. A royalty best fits a product with a high profit margin.

Royalty payments usually begin with the first revenue dollar. Use this financing technique on products that do not require a long time for costs to stabilize and profit to materialize.

Sale and Leaseback

You can do this with real estate and business equipment (including vehicles) which you own.

Application

Investors will buy your asset and rent and/or lease it back to you. The price they pay ranges from liquidation value to fair market (used) value.

Tip

This technique can be particularly profitable if the value of the asset exceeds the value of its remaining depreciation deduction.

Advantage

You can raise cash while the deduction for rent and/or lease can be larger than depreciating the asset.

Disadvantage

Be careful of the Provincial Sales Tax implications in non-harmonized provinces, the investor will pay PST on the asset and charge you back that amount (plus interest) in future payments.

Salespeople into Profit Centers

Why pay a flat commission rate to your sales personnel?

Make those employees aware of your business' *total* cost to process an order beyond the cost of the product.

Suppose a salesperson produces gross revenue of $2000 per week. If all costs equal $1500, and you pay the salesperson a 50% commission, then you are in the hole $500. Adjust commission(s) to a break-even point and increase monetary rewards exponentially as the sales personnel generate higher volume (quantity and revenue) and higher profit margin orders.

Tip

Your salesperson has insight into the customer's operation. Make the payment of all or part of the sales commission subject to the successful *collection* of the sale (i.e., your customer makes payment in full, which sometimes does not occur on installment sales).

Self-Insure

Big companies do it all the time, and so can small firms.

Application

It means you do not buy insurance to protect against loss from certain risks. Instead you fund an account you control. Earmark the money to cover claims (losses).

Advantage

A big loss in the distant future means you can spend the money you would have paid an insurance company and build a reserve for the future loss. Keep in mind, a big loss the day after you self-insure may put you out of business.

Tip

Some businesses partially self-insure for the amount of loss they can afford each year. They purchase a *stop loss* insurance policy to cover their exposure to additional loss. This is similar to increasing the deductible on your insurance and serves to reduce your premiums.

Warning

This tactic is inviting and dangerous. To avoid "going bare," carefully evaluate your probable potential for loss, and the timing of loss.

Read all your contracts before self-insuring. You may discover that self-insuring would violate your lease, loan documents or other agreements.

Coupons or Discounts

Advertise vouchers that represent products or services your business delivers upon presentation of the voucher.

Or, sell a coupon book that provides the customer a discount when presented with their next purchase.

Tip

It is surprising how many customers neglect to redeem.

Seed Money

Seed funds are organizations whose mission is to offer funding to qualified small businesses.

Application

Seed funds tend to offer smaller amounts of money than the minimum banks will lend. Seed funds accept higher risk than banks will take.

Seed funds look more at the people they are dealing with than the product or service the company offers. This is because a seed fund finances the potential for a business' concept instead of funding operations or growth.

Many seed funds have relationships with venture capital firms (and individual angels). They refer companies to them after the company has prospered and grown—at the time when the firm needs a larger capital investment than the seed fund can handle.

Contact your local economic development agency for programs and other provincial or federal agency programs.

Small Business Venture Tax Credits

Some provinces allow you to give investors a tax credit against their equity investment. As of this writing, most provinces offer a 30% tax credit to investors in qualified small businesses who leave their money in the company for a minimum number of years. That's like offering your investors a 30% return on the first day of their investment!

Sell Future Income

Say you have earned a commission, or a royalty payment is due, but you need cash now.

Application

Investors might pay you a discount price if you can prove that a creditworthy payer will unconditionally pay you by a certain date.

The investor gives you cash.

You assign to the investor your right to receive payment.

Some type of fee may be required but with the understanding of your cash flow situation and cost of money, discounting may be advantageous for you.

Sell It—Then Make It

Advertise your product or show a sample to a customer. Collect a deposit or full payment from your customer, and then use the money to fund the manufacture and delivery of the product or service. Do you think all those catalog firms have all that stuff gathering dust in their warehouse?

Sell More to Current Customers

Your current customer list probably contains many diamonds in the rough, customers that could potentially double or triple their purchases from your company.

Application

You know their purchase/payment history.

Current customers already know your company, are happy with your products/services and are more likely to try additional products or services you offer.

Tips

Rather than merely filling their next order, ask for a larger order. Suggest additional products or services your company offers or identify opportunities for *your* customers to sell more.

Follow these steps in priority. They increase the probability that current customers will buy more from your company:

1. Ask for a larger order or suggest purchasing additional products/services.
2. Offer extra time on your credit terms for "new" purchases.
3. Provide a cash discount for the next order.
4. Allow the customer a free trial period.

Advantages

The cost to reach and sell a new customer is much more expensive than increasing revenue from current customers. Said another way: You can increase sales to five existing customers for the same cost as one new customer.

Which of your customers is likely to be a repeat customer for the long-term?

Disadvantages

The fewer loyal, creditworthy customers you have, the less you can increase revenue.

Warning

New products or services you sell must be consistent with the quality standard the customer has come to expect. If your customer's experience with their "new" purchase does not meet the standard(s) you have set, <u>all</u> future purchases could be in jeopardy.

Sell Your Business Plan for Cash

Believe it! Lots of soon-to-be business owners and established small businesses will pay you big money for your business plan if your business is a model for success.

Tip

Unless you sell nationally or internationally, why not sell (or license) your plan outside your marketplace?

Sell Your Vehicles

If your business (and personal) vehicles have sufficient equity, sell them and lease replacements.

Application

Negotiate both the sale and lease at the same agency so you can work both deals to gain the best advantage.

Tips

This becomes particularly attractive when you own vehicles which no longer benefit from the manufacturer's factory warranty. Replace them with new, full warrantee leased vehicles.

Some lease programs offer manufacturer subsidized interest rates.

An alternative to this: Sell your delivery trucks to their drivers. The drivers become subcontractors and take better care of the vehicles because they own them. You pay for delivery service as opposed to incurring fixed cost for depreciation, maintenance, wages, insurance, etc.

Sell Assets

Sell any asset that is not useful to you or your business. Invest the cash in your business or use it to retire debt.

Warning

Review your loan documents before proceeding with the sale of any asset. Make sure the asset you intend to sell is not already pledged to another source that provided you money or credit.

If you sell a pledged asset, you risk being in default of your loan terms or covenants. The consequences of the default could jeopardize your business' future.

Seminars and Public Speaking

At a minimum, you can travel first-class to your working vacation by giving how-to presentations to trade associations whose members want to hear why your business makes, or how their company can make, lots of money.

Shorten Credit Terms

Reduce the number of days before payment is due.

If you have loyal, satisfied customers, many will cooperate.

Tip

Shop your competition's credit terms first to be sure you do not drive your customers to them.

If you are nervous, ask customers if they will pay earlier.

Strategic "Partners"

Partner, in the context of this technique, does not necessarily mean a legal entity; it refers to a special type of relationship your firm has with another company: "I'll help you if you help me."

You will find the safest strategic partners among non-competitive companies.

Advantages

A strategic alliance improves each participant's business by *diversifying* each firm's products, talent, locations, marketing, production, etc.

Done correctly an alliance will strengthen your advantage over your competitors.

A strategic alliance is easier to get out of (if things go wrong) than a sale, acquisition, or merger.

Disadvantages

It is easy to fight with your ally. Typical disagreements, misunderstandings and failure to achieve expectations relate to:

- Scope of the task your partner will handle for you
- Procedures for the task your partner will handle for you
- Deadlines
- Budgets: Prices and costs
- Quality control

Warning

Avoid a strategic alliance with a potential partner if any of the following apply:

- Company culture differs substantially from yours.
- You or the other firm appears overly suspicious of each other's motives or capabilities.

- Little or no compatibility and commonality in each potential partner's marketplace (i.e., product line, customers, suppliers, marketing activity).
- Seems to have trouble focusing on details. The big picture is important, but attention to detail determines success.
- Cannot agree on a method to share information and report progress toward mutual goals.
- A strategic alliance may violate antitrust law, especially if the participants are competitors.

Sleeping With Your Enemy

In hard economic times — in the economy or within your business — there becomes less of a market for your company to sell its wares, or for you to sell your business to a business buyer. Either event can result in your firm going out of business.

Application

One way to combat a slowdown is to merge with a competitor. Done correctly, you consolidate resources and reduce overhead (through economies of scale).

There may be something to the saying, "Keep your friends close but your enemies closer."

As much as merging with the competition can seem like admitting defeat, it may be the lesser of evils when the alternatives are downsizing, bankruptcy or selling out entirely. While the competition and you may have been rivals, a merger can work if each side is willing to give a little, and if each company president is willing to give up some authority.

In keeping the current executives on board, the merged firm prevents a messy changing of the guard which can lead to the loss of key employees, customers or suppliers.

Tips

- Hire business and legal advisors to help you assess the relative risks and opportunities of continuing with what you are doing, downsizing, selling or merging.
- Research your prospective partner's company as if you were planning to buy it outright.
- Find a partner whose business, when combined with yours, will achieve significant economies of scale immediately, because this will instantly increase profit.
- Define the respective role for yourself and your partner, using management contracts to document your agreement.

- Have an exit plan before you consummate your deal. Use a buy/sell agreement. Include the method to value the business upon a change of ownership.

Advantages

Merging with a competitor is an alternative to downsizing your firm or selling it. Although this means making an alliance with someone you may have had an adversarial (competitive) relationship with, the post-merger company can survive the hard times and be stronger for growth if the predecessor companies' management styles are compatible.

This can benefit the smaller company by giving it the increased cash flow it likely will need and provide access to other resources such as planning assistance and lines of credit.

Stop Offering Cash Discounts

Instead of offering all your customers a 2% 10-day cash discount, only offer these terms to customers you think will be slow to pay.

Tips

Lots of firms automatically pay all invoices within 30 days. The money you save can be huge, because the effective interest rate on cash discounts is huge!

Diligently collect from your customers discounts they improperly take when they pay after their deadline to earn the discount.

Subcontract

You do not have to be in construction to do this. Staff your business no larger than what you need to keep all your production employees working hard, full-time.

When you sell more work than you can handle, farm it out.

Sub-distribution

If your sales force cannot be everywhere, or your marketing cannot reach all your possible customers, contract with another firm to sell and distribute your products.

Advantage

If your product is hot enough, the distributor might pay you up-front for the right to represent your line, and you will profit from each sale the distributor makes.

Sublet

Maybe you want to relocate to new, better, or cheaper quarters.

Application

You have a great lease, with rent below the current market rate. Sublet your premises for two cash benefits:

- Collect advance rent.
- Profit on the spread between what you pay your landlord and what your tenant pays you.

Tip

What about your parking lot? Rent some of the spaces by the hour. Paint a number on the spaces. Use a self-serve collection box. Hire a towing company to enforce your rules. Your lot is full with your employees and customers? What about after-hours or weekends?

Example

What about sub-leasing part of your space?

> Mary owns an art gallery, showroom and frame shop. Instead of hiring a full-time framer, she leases the shop space to an independent framer.
>
> She receives rent for the space and has a qualified framer on site that she pays on a per job basis. She has no wasted employee expense when times are slow and she eliminates her cost for errors, breakage, etc.
>
> The rent she receives covers much of her base rent for the entire space.

Tax Minimization & Deferral

One of the easiest and fastest ways to create or conserve cash is to find a tax advisor who will show you, but aggressive legal techniques to minimize or defer taxes.

Advantage

Done properly, the worst thing that happens is you are audited (which may not be a high probability) and you have to pay taxes and a penalty—if what you did was not permitted and the taxing authority detects it.

Tip

Consider using a tax lawyer so you benefit from the lawyer-client privilege (which does not cover what you say to your CPA).

Application

Below are a few ideas (some of which may be out of date by the time you read this) to discuss with your tax counselor.

If you correctly and legally implement these ideas, you should not incur taxes, interest and penalty.

Bonus yourself this year – pay out next year if your corporation's year end is after June 30th, you can declare a bonus to yourself in July and pay it out in January of the year after. This allows the corporation to claim a deduction but defers your personal taxes until April of the second year.

Pay dividends instead of salary. The dividend tax rate is lower than the salary tax rate. So pay yourself with dividends instead of a salary. Be careful of the LPP impact – this may limit the amount you can collect when you retire.

Do the opposite – pay a salary instead of dividends! Depending on the income of your company, there may be times when you want to "bonus down" your corporate income to continue to qualify for the small business deduction. Consult a tax professional for the best mix of salary and dividends.

Inject cash into your company, and get it out later with a smaller tax bite

Two ways to put money in your company:

1. Contribute capital in exchange for stock.
2. Make a loan to your firm.

If you make a loan, interest your company pays you is tax-deductible and repayment to you of the principal is without tax to you.

On the other hand, the CRA may deem a return to you of your capital contribution to be essentially equivalent to a dividend, meaning taxable.

Tip

Your tax advisor can show you the right method you must take if you want to take the loan approach.

R & D Tax Credit

CRA provides tax credits to promote research and development. R & D isn't just for high tech firms – food processors, metal workers, even service businesses can claim R & D credits. Maximize reclassification of your expenses to capture all of your R & D expenses and reduce your taxable income.

Enjoy your hobby and get a write off

You can do it if you can substantiate that you are engaged in the activity with the intent to earn a profit. If you lose money, you can write off the loss against other income on your personal tax return—so long as some years you report a profit. The CRA looks at a number of factors when ruling on whether it believes you are engaged in an activity for profit:

3. The profit and loss experience in past years;
4. The amount of gross income, if any, reported over several years;
5. The length of time over which a profit could reasonably be expected to be shown must be relevant to the nature of the activity. For example, in the case of a tree farm, the relevant time period might be longer than a vegetable farm;
6. The extent of activity in relation to that of businesses of a comparable nature and size in the same locality;
7. The amount of time spent on the activity in question;
8. The individual's qualifications, such as experience, training and education, including his/her eligibility for membership in a professional association;
9. The qualification of the individual for public assistance given to those who are carrying on a business in that field of activity;
10. The individual's intended course of action, as evidenced by his/her efforts showing an intention to make a profit (e.g., the preparation of a business plan);
11. The capability of the venture as capitalized to show a profit after charging depreciation, and the development of the operation and commitments for future expansion according to the individual's available resources. This includes the ability to secure proper and reasonable financing in order to make the venture a viable business capable of showing a profit;
12. The degree of effort in promoting and marketing the products or services supplied by the individual as, for example, the registration of a trading name and the opening and maintaining books and records;
13. The type of expenditures claimed and their relevance and reasonableness to the activity (i.e., will the expenditure enhance the ability to make a profit); and
14. The nature of the product or service supplied, such that it has a profit potential (i.e., a market exists or can be developed).

Telemarketing

Telemarketing is an effective method to increase your revenue, survey your customers and research your marketplace and competitors.

Application

There are numerous firms, local and nationwide, that can help you plan and handle telemarketing (including doing it for you on a commission basis).

Advantages

Telemarketing delivers qualified prospects for a direct sale or a follow-up sale.

Market intelligence aides you when you prepare a strategic plan, develop new products and services, or assess your strengths and weaknesses.

Warning

If marketing to consumers, obey the "do not call" rules.

Timesharing

It exists with condominiums and camp sites, why not your business assets?

Application

You are a machine shop running one shift.

Sell access to your plant and equipment to a non-competitor during your after hours.

Trademarks and Patent Rights

Unless your business is selling to every possible customer it could serve worldwide, consider licensing to another firm the right to use your trademarks or patents.

Advantage

There is HUGE money available to you — up-front and as a royalty — when you properly use this tactic.

Turn Your Building into a Billboard

Ask your local government if there are rules against you displaying advertising on the side of your building.

Application

If it is okay to post advertising, start calling advertising agencies.

Advantage

National firms may pay you big money. They see your location as another billboard.

Tips

This is a very competitive market. Shop around before deciding to accept an offer.

Negotiate an inflation adjustment clause in the annual rental fee you will receive.

Require the advertiser to possess adequate insurance coverage for possible damage to your property or third-party liability.

Make sure the billboard owner and/or advertiser pays for all taxes and removal of the sign structure (or imprint if it is on your building facade, retaining wall, fence, etc.) upon expiration of the lease.

Umbrella When It is Sunny

Get a personal and business line of credit before you need it. It will be handy on a rainy day.

Tips

In case you do not know, roughly 25% of businesses with a line of credit rarely or never use it.

If you use it, give it a rest (i.e., pay it off occasionally and wait awhile before further activity).

Interview non-bank sources of credit lines. They are not subject to the same regulatory requirements which apply to banks.

Upgrade Your Product or Service

Re-tooling your product line can be more cost effective than developing new products. Additionally, by keeping the same name on the upgraded version customers will be more familiar with it.

Tip

Upgrading your products to fit with the current technological advances should be something you do regularly.

Advantages

In keeping the same products on the market, you will most likely stabilize revenue. This can allow you to take risks in other parts of your product line.

Replacing older or obsolete products with new versions may enable you to reduce or eliminate inventorying spare parts for previous generation products or offering technical and other customer support.

Vendor Guaranteed Buy-Back

Do you have inventory that is not selling? Vendors feel vulnerable when they sell you something you cannot promptly re-sell for a profit.

Application

Ask your supplier to take slow-selling or unmarketable items back.

Tip

If you have already paid for the merchandise, in lieu of requesting a refund, tell the merchant to credit your account receivable.

Advantages

This allows you to return items that are not yielding the profit you seek.

It gives you access to cash by way of offsetting your accounts payable.

Tips

Taking advantage of a return privilege works best with items that are not trendy or subject to seasonal fluctuations.

If the vendor balks at your request, tell him he will not be your primary supplier unless he agrees to buy-back inventory which you cannot sell after you make a reasonable effort.

If the vendor does not have faith that his item(s) will sell, why should you?

Warning

If you send items back and re-order them later, your supplier may stop doing business with you because you are abusing their return policy.

Vendor Price Concessions

This is a great way to boost your bottom line and create additional cash flow.

Application

Identify each vendor from whom you purchase more than 5% of your total expenses.

Determine your annual volume with these vendors.

Identify the vendors who have significant competition. Then use these ten methods to strengthen your position with your suppliers:

1. Invite the competitors to your office to pitch their program.
2. Schedule salespeople in your reception area such that at least one competitor is waiting, and sees his competitor exiting your office.
3. Request a competitive bid. Get a commitment on price, price protection (against increases for a specific term), quantity and prompt payment discounts, credit terms, minimum order, delivery turnaround, returns and allowances, rebate, cooperative advertising, and other topics important to you.
4. Say you or your boss are angry about delivery delays.
5. Go over your salesperson's head (i.e., complain to the sales manager).
6. Reject a shipment from your supplier while the talks are going on (but be sure to have sufficient stock on hand so this ploy does not backfire on you).
7. If possible, show a new product design that could eliminate the need for the supplier's product.
8. Let the supplier know you are thinking of making the product yourself.
9. Sign a contract for a fixed minimum amount of volume for a set period of time for better terms (as delineated above).
10. Ask for a purchase rebate based on your purchases above a minimum amount.

Tips

When purchasing from companies whose shares trade on a public stock exchange, keep in mind that they are under constant pressure to report good quarterly numbers. Try to place your orders two to three weeks before the end of the quarter. It is easier to extract good discounts and terms (i.e., many companies will discount 20% or more if they need to book the revenue to satisfy their stock analyst).

Consider the business your supplier is in when negotiating price and discounts.

- Commodity suppliers of goods such as gasoline or PVC pipe have small margins and are less likely to cut deals. They also tend to strictly enforce credit policies as slow paying customers eat up their profit.
- A high margin supplier of things like software or orthodontic/ophthalmic supplies have a lot more room to be flexible on price, discounts and payment terms.

Push hard on the vendors with the fat margins.

If you are a distributor, keep your terms in synch with those of your supplier(s). The vendors in constant financial crisis are the ones that extend 60-day terms when they only get 30 days from *their* supplier.

Your Price is Wrong

Application

The first rule of pricing is the simplest—make sure you are charging every customer the highest price the customer will pay.

Here is a simple three-step procedure to identify profit opportunity.

1. List your largest customers, the ones who as a group represent twenty percent of your revenue. (If you do not directly sell to customers, identify your largest distributors.)
2. For each customer, ask yourself, “If I raised my price 5%, would I lose the customer?” If the answer is no, progressively increase price 5%, 7%, 10%, 15% — keeping in mind your competitors’ prices and your customers’ loyalty to you.
3. Apply the appropriate percentage increase, and then move on to the next group of customers, until you have analyzed and implemented appropriate price increases for all your customers.

If you accurately analyze your customer accounts, you will realize some customers cannot take a price increase, but some can handle one.

Your marketplace affects your prices; so does your cost of operation.

Without a good cost-accounting system, it is difficult to know whether the price you charge for a product or service covers all your direct and indirect costs, plus provides the profit you seek.

Seat-of-the-pants bookkeeping usually results in you being kicked in the pants, out the door of your business.

Long before trouble sets in, a useful bookkeeping system will raise red flags as early warning signals. Keep shopping until you find an accountant who can install such a system.

Tip

If you have not done so lately, figure out what the market will bear—the highest price customers will pay before they begin to look to your competition for the product.

You maximize your profit by moving your pricing toward what the market will bear instead of merely covering your costs and generating a nice profit.

Afterword

Yes-But?

You are a yes-but if you say: “Yes, I want to do it, but (here’s my excuse).”

Yes-buts play the loser’s game.

You are a yes-but if you reject useful ideas you or anyone else generates.

You are a yes-but if you say: “I’ve got to get other parts of my life squared away first.”

If you really want something, when is the best time to start? The world is full of people who take their dreams to their grave because they plan to start tomorrow. Tomorrow never comes.

Other people might try to tell you that what I’m saying will not work. That is because they do not know what I KNOW.

- They do not know *The Street-Smart Way to* <u>*Buy*</u> *a Business*.
- They do not know *The Street-Smart Way to* <u>*Get Cash Out*</u> *of a Business*.
- They do not know *The Street-Smart Way to* <u>*Increase the Cash Flow*</u> *of a Business*.

That is why they are skeptical.

If you seek financing for the business you own or want to buy or start—

- Some people will discourage you because they do not understand the techniques this book explains.
- Or they discourage you because they benefit more if you do not get financing than if you do.
- Or a particular source of funds declines to furnish financing, in which case simply try another technique and another until you get the money.

If you seek financing to buy a business—

- Some people discourage you because they cannot earn a commission unless you do what they want. Or they discourage you because they do not like the smaller commission they get if you KNOW how to buy a business at fair market value or even well below market, or how to employ creative financing techniques to improve or take cash out of the company you own.

There are lots of businesses for-sale by-owner on the "hidden" market; they are not advertised and they are not represented by brokers.

If you want to buy a business, realize the big profit comes from buying at "wholesale," directly from a by-owner seller.

To buy at wholesale, you must do two things—

1. Learn how to do it.
2. Do some of the work yourself.

If you do not act now, things are going to get tougher, not easier.

Perhaps you haven't taken action because you are not sure you KNOW enough.

Tips

Here's what works:

1. Start by setting a target date; it is the antidote to both procrastination ("Oh, I'll get to it someday.") and despair ("I'll never get there."). The sooner you start getting some of what you really want, the more confidence and energy you will have for the rest of it!
2. Remember the Boy Scout motto: Be prepared — to take action.

Any business acquisition is feasible if you creatively finance it.
You must know how to talk to sellers, brokers, suppliers, bankers and investors.

If you talk to them without being prepared to answer certain questions about the company you want to buy and the financing you propose, they are going to look at you like you are an amateur, and proceed to ignore you!

Guess what? KNOWING creative finance is not enough.

You must FIND a motivated seller before anyone else, and KNOW how to quickly evaluate his company, KNOW what to pay for it, and how to present an offer he will accept.

It will not matter if you know how to put together a winner deal if you do not know how to FIND a company.

There's gold in them thar hills, if you KNOW how to find it.

Before you can find the treasure, you must have the map!

"There is no such thing as a self-made man.
You will achieve your goals only
with the help of others."
George Shinn

Farewell, reader—

This booklet will work for you if you diligently apply what is in it.

Let me know what you accomplish.

Best wishes for your continued success!

Ted J. Leverette
PartnerOnCall.com

Opportunity expands to fit the space you create for it.

Fish with Dynamite

300 PROVEN TECHNIQUES TO BORROW OR OBTAIN EQUITY CAPITAL, PLUS OVER 200 BUSINESS OPERATION TACTICS THAT GENERATE FAST CASH

What could you accomplish if you had sufficient capital?

People in business and people who want to own a business share a common problem — MONEY. Specifically, not enough money at the moment they need it.

Your lack of capital for the privately held business you own or want to own is a hindrance you can overcome with street-smart knowledge of finance.

How to Get ALL the Money You Want For Your Business Without Stealing It explains over 300 proven techniques to borrow or obtain equity capital, plus over 200 business operation tactics that generate fast cash. You get more than explanation—on many of the techniques you learn advantages and disadvantages, practical tips and warnings.

The book also contains a **Directory of Funding Sources & Advisors,** so you can brainstorm your situation with the pros, then take your proposal to organizations that want to see it.

Using this book is like fishing with dynamite!

Book Reviews

"If there was a "Pulitzer" for the small businessman, you have earned it! A must read for all business owners or those preparing to start or buy a business. Only comprehensive book that addresses everything you need to know about financing your business."
—*Anne R. Whitney, KeyBank*
V.P., Private Banking & Investing

"A financing bible. It's absolutely fantastic. I made a list of financing techniques I thought the book would omit. To my surprise I discovered I could only contribute one idea. This book is going to be a best seller!"
— *John Gallagher, CPA*
Baltimore, MD

"Even people who know some of the points gain by learning even one new approach. Well worth the cost."
— *Wally Stabbert, President*
Institute of Certified Business Counselors

"You could spend hundreds of dollars to buy all the other books on financing and not have dozens of the ideas this text contains."
— *Kathleen G. Salem*
Chicago, IL

"Key to the mint. So good I couldn't put it down. Wow, this book has it all! The only financing source not mentioned was pennies from heaven. This book is the key to the mint for small businesses."
— *Jon Kastendick*
P.W. Pipe, Eugene, OR

"The only A-to-Z source I can find on financing a family business. Contains proven methods—tactics your lawyer, accountant and banker don't know or won't tell you. The no-nonsense approach is refreshing, straight forward, and full of valuable information."
— *Gil L. Lyons*
Scottsdale, AZ

"Very comprehensive. Ideas that would not have occurred to me."
— *Clyde Tritt, Managing Partner*
O&M Investment Partners

"Delivers! Readers get the equivalent of a graduate degree in real world business finance. Must read for entrepreneurs."
—*Jim Kilburn*
SIRCO Funding, Inc.

"not just another "How To" book. Detailed, effective manual guides you through every conceivable step necessary to obtain capital to start and run your business. Capital is king and this book could provide the keys to the kingdom."
— *Angelo Mozilo, Chairman & CEO*
Countrywide Funding

"I was impressed to find it contains financing techniques that even I, Ms. Knows-It-All, had not thought of. We see successful businesses on the market with stifled growth as a result of cash flow problems. Your book illustrates that this need never be the case."
— *Lori King, CPA,*
CEO, Business Exchange Center, Inc.

"You oughta have a weapon's license to know what is in this book. It combines street-smart advice with practical solutions. I've been in business 30 years. I never read a more useful publication on this topic."
— *Jerry Eisen*
Seattle, WA

"This is the perfect book to learn techniques and secrets your banker will not tell you. Anyone buying a business would be wise to first invest in their education."
— *Harold Kain*
Chicago, IL

"A treasure chest full of financing ideas, options and sources. Regardless of the type of business, you can immediately use the methods in this book. Devour it!"
— *Clint Phillips*
Washington D.C.

"This book is a stroke of genius. There is no business that can't use it. No profession that can't use it. No entrepreneur who can't use it. No MBA student who wouldn't be miles ahead with the tons of practical information."
— *Gene Pepper*
Glendale, CA

"Along with our loan officers, I have reviewed your book. We find it good."
— *Ray Dumser, President & CEO*
Verdugo Bank, Glendale

How to Get ALL the Money You Want For Your Business Without Stealing It