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Finance tips from the professionals: Pay attention to billing, use other people's money, get a lot of advice

BY SUZANNE WINTROB

Many people who start small businesses are so blinded by their own bright ideas they lose sight of their financial situation. They have no idea where to find money to get going or stay strong.

"In companies under 50 employees, the entrepreneur is basically the manager, the chief financial officer, the chief design officer and the chief salesman, so he's very busy," says Bob Glandfield, president and chief executive of the Innovation Synergy Centre of Markham, in Markham, Ont. "Not that he's incompetent. It's simply that he gets so busy he doesn't have time to look at the details, so they get caught up in the symptoms of the problem."

Mr. Glandfield, a former industrial technology advisor with the National Research Council, has seen many small businesses fail because they could not get their finances in order. Three years ago, he gathered some experts and set up ISCM, an advisory centre that provides free consulting, business mentoring, networking opportunities, and links to government and other funding programs. The centre is backed by three founding partners—NRC, the Town of Markham and York University—and a sponsor, Royal Bank of Canada.

Mr. Glandfield says most business owners start out using their own savings or turn to "angel investors" for help. Soon they get orders but they still are not bankable. Eventually, they become eligible for a bank credit line. Only a select few are

lucky enough to have venture capital funding. Some small businesses may find government money "but you can't run a business depending on government grants."

Grant Simons, national manager of business and commercial markets at Toronto-based RBC Financial Group, says the last financial statements of failed businesses often show both growth and profit. He believes in finding the right source of capital—and enough of it—at the right time.

"The businesses that successfully manage [capital] are those who take a longer-term view of how they fund their business," he says. "What they need—debt versus equity versus other forms of financing—changes over time so they need to be thinking further out."

So how can a small business start to get into financial shape?

First, pay attention to billing. Get invoices out the door quickly. If you have to go out and collect a cheque, do it. If you have to offer cash discounts to get customers to pay early, do it. Negotiate long-term payables "or you can grow out of business."

Reduce inventory to a minimum, especially since large orders take a long time to materialize. If you have to negotiate to get inventory on consignment, do it.

"The more sophisticated the client, the better they are at using other people to finance their operation," says Mr. Glandfield, who has met many firms that

have lots of inventory—but not a penny in the bank. "You have to run your business in a way to manage your own cash flow."

Further, he says, be sure to keep all of your lenders informed about anyone you owe money to or are doing business with; assure them you are managing these issues properly.

With the basics looked after, it's time to do some talking.

First, talk to friends or colleagues. According to a CIBC poll of 1 800 small business owners conducted over three years, entrepreneurs who sought the advice of professional advisors on a regular basis had revenues 76% above those who went solo. Find a group of trusted advisors—perhaps a banker, a lawyer, an accountant, a fellow entrepreneur, and a long-time businessperson—who can offer advice and strategies for success.

Next, talk to the bank. Most have programs geared specifically for small business.

"We peel it back and say, 'OK, let's take a look at what the costs are going to be to establish the business. Have you thought about what you're going to price your service or your product at? Have you looked competitively in your area to determine what similar services there are? What's going to be your prime differentiator in the marketplace if there are similar services?'" says Rob Paterson, senior vice-president of CIBC's small business banking. "At a point in time you can see there's an opportunity to make a certain amount

of money, but that can change as more competitors come in or as economic factors come in the future.”

Then, talk to the government. According to Mr. Glandfield, many business owners who export inventory aren't aware that Export Development Canada will insure 90% of the value of the receivables, allowing a business to give extended terms.

Another route is R&D tax credits. The federal Scientific Research and Experimental Development (SR&ED) program offers Canadian-controlled private corporations an investment tax credit of 35% up to the first \$2-million of qualified expenditures for SR&ED carried out in Canada, and 20% on any amount over that. Some provinces also have additional tax breaks.

Mr. Glandfield says many small businesses don't know about R&D tax credits because their accountants don't know about them, or tell them they don't qualify. That's unfortunate because “it's the single largest financing the government has to help small business with their R&D and innovation programs.”

There's also industry Canada's Small Business Financing Program that can help a business owner borrow a larger amount of money than they normally would be able to and offers limited guarantees.

MORE FINANCE STRATEGIES:

- If you don't have the credit or capital to cover an order, factor it: Sell it to someone else, let them take the premium and you take the cash to establish yourself.
- If you own property, remortgage it to acquire cash.
- Sell your equipment to a leasing company and lease it back for an immediate cash injection.
- Consider going into mezzanine debt whereby a financial institution will lend you money to work on your R&D or marketing plans.
- Hold back enough savings to survive if you have a few lean years at the start.