

B.I.G. Advice

Business and Tax Advice for the Owner-Manager

A Monthly Column by Terence Chan

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Introduction

In today's complex and competitive environment, many small business owners need solid business and good tax advice.

B.I.G. is offering free advice through the sponsorship of SF Group www.sfgroup.ca

Each month (except August and December) Terence Chan, C.A., the audit manager of the SF Partnership, LLP, will supply a column at www.bignetworking.ca on current hot issues for small business management.

SF Group specializes in management advisory areas including feasibility studies, business plan development, management reviews, research and development, financial proposals, as well as performance evaluations and corporate and personal taxation matters.

You can email Terence directly at tchan@sfgroup.ca for additional advice relating to the topic. He will answer most questions within 48 hours and this service will be free to B.I.G. members. Please supply your phone number in case he has questions to ask you.

To read Terence's biography, please go to: www.sfgroup.ca/corp-info/profiles/chan.html



Terence Chan, C.A.

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Hidden Problems of an Expanding Owner-Managed Business

by Terence Chan, C.A.

During the last couple of years, Canada has been enjoying low inflation and low interest rates. Small businesses have been growing at an unprecedented pace. However, behind the scenes, there might be problems which even the most hands-on owners would miss during their good years. These problems are like hidden time bombs and will explode when the effects of a slower economy with higher interest rates starts to creep in. This is exactly the business environment we are currently in. Perhaps it is time for us to take a look at these hidden problems now.

The most common oversight is in cash flow management. This can be a fatal mistake. During good years, generation of sales and collection of receivables are non-issues. Bad debt is not a familiar term. The focus of the owner-manager is on how to expand and how to spend. Customers delaying payments? Not an issue. They will pay eventually. No cash to pay operating expense? Not to worry, we can delay payments to our suppliers as well. No funds for expansion? Ridiculous. Banks are competing to give us low interest loans. The problem will arise when the economy starts to slow down: suppliers will feel the cash strain and they will put pressure on us for payments. On the other hand, our customers will be in the same boat too! Banks loan money only to companies with cash flow, not to those with cash flow problems. What about the rising interest costs on existing loans and the cash commitment on our

expansion plans? A lot of times, businesses do not go under because they have no business, but because they have no cash.

Therefore, **cash flow management is critical for the survival of a small business.** Cash flow projection is a useful tool and should be done on a regular base.

Another common mistake is the lack of a solid, long-term business plan. The emphasis for most small businesses is to increase sales in the near future. There is very often a lack of long-term planning as to which direction the company is heading and the kind of customers they want to focus on. For example, one would try to increase revenue and market share by cutting prices. When financial resources are not an issue during good times, this lack of focus and short-term policy will not affect the business. Owners will even be happy when they operate at 100% capacity and staff must work overtime in order to meet the demand. What a rosy picture. However, when sales volume drops, and costs of doing business increase, the effect of a lack of direction will float. Decreasing the price is much easier than increasing it. Owners will regret those low margin orders, which may now be a money losing business because of the increase in costs.

Hiring poor quality employees is another hidden time bomb. We all know that it is not easy to hire good quality staff in a good economic environment. Good staff is the key to success. The importance of training inexperienced staff and keeping good experienced employees cannot be over emphasized. When the demand is high, customers may be willing to compromise. When the demand drops and competition intensifies, a good corporate team will surely make a difference.

Small business owners: have you been wondering why business is good but still you have a problem with cash flow? The size of the company, in terms of the number of employees, grows, but not the bottom line? If your customers leave to go to competitors with no particular reason, I think it is about time for you to visit your accountant.