

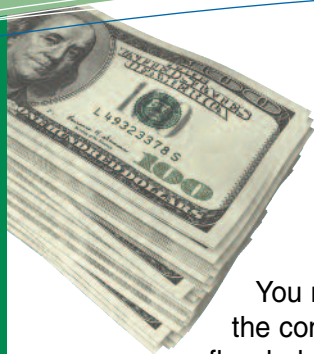
## SBA 504 Loans Remain Available for America's Small Business Entrepreneurs

By Kristen Tackett • Lender

One needs to look long and hard for even the smallest success in today's dramatic economic downturn. While most analysts and pundits continue to wallow in an economic forecast of doom and gloom, it may come as a big surprise that the SBA 504 loan program is still helping small businesses nationwide expand. No \$700-billion bailout, no Wall Street fallout, just Main Street small businesses that are turning SBA 504 loans into increased profits while adding employees and bolstering their local economy's tax base.

When the economy is strong and access to capital is relatively easy, there's typically less demand for SBA financing. In the case of the SBA 504 loan, a private sector lender partners with a Certified Development Company (CDC) to provide financing for the purchase, construction or renovation of owner-occupied commercial real estate. Use of the SBA 504 loan tends to become

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## The Importance of Strong Cash Flow Management

By Jeffrey Wilke • Management/Coaching Consultant

You may have heard the phrase, "cash is king." There's a reason for the common use of this expression in business. Without positive cash flow balances, businesses quickly fail because they can't pay the necessary bills to keep them in operation. Many business owners think in terms of profit instead of cash. It's important to realize that cash – not profit – is used to pay for expenses in the daily operation of the business. Profitable businesses can still fail when their monies are tied up in assets and cash isn't available to pay bills.

This fact stresses the importance of strong cash flow management by business professionals and becomes more critical during times of economic uncertainty. But you can take steps to better manage cash flow and prevent unnecessary cash problems. Here are some key areas and associated techniques to focus on when managing your cash flow:

### General Cash Flow Management:

Prepare a cash flow budget by forecasting sales, cash receipts, expenditures and cash balances. Projections should be on a monthly basis for at least one year and include all anticipated variations in sales.

Use this budget to help ensure that there's enough cash on hand to meet the company's obligations. Always strive to reduce cost and waste throughout your business. Get employees involved and work to create a culture based on these principles.

### Accounts Receivable:

Deposit payments and credit card receipts daily. Your main goal is to turn your receivables into cash as quickly as possible.

Entrepreneurs who sell on credit also need a strong collection program in place. Use customized credit applications to help screen customers before granting credit.

To speed up customer payments, invoices must be sent promptly. In addition, timely action should be taken when an account becomes past due. Print and monitor reports that reflect the aging of accounts receivable. Keep in mind that the older the receivables, the less chance you'll have collecting on them, resulting in decreased value and poor cash flow.



# Managing Inventory *in Challenging* Economic Times

By Adam Robinson • CPA



Times are tough economically, and some forecasters suggest they may stay that way throughout 2009. Declining demand for products and services results in lower sales. But many manufacturers continued producing products at the same pace (in the early months of the downturn) hoping for a turnaround and because of the huge fixed costs incurred regardless of the level of production. Continuing production can be good for the manufacturer (if the product can be sold), but it can cause the supply distribution chain to overflow with excess inventory. This situation isn't good news for wholesalers and distributors if costs are increasing while sales are decreasing.

When business is down, why would wholesalers continue to buy from manufacturers? Two major reasons:

**Fear of supply drying up.** If demand falls too much, the manufacturer may shut down a product line for a specified time period. Your customers still want the product, albeit in smaller quantities, so you must keep it on hand or provide a lower customer service level (and possibly suffer the consequences). This issue forces you to stock excess inventory to handle demand until the manufacturer starts producing again.

**Special pricing offers.** Remember, the manufacturer has huge fixed costs that need to be covered. Therefore products may be offered temporarily at prices slightly above their variable costs to cover the fixed overhead.

But think twice about the benefits of special pricing offers. Everyone likes a good deal and, in a tough economic climate, you're on the lookout to reduce costs and seek out bargains. Be careful before jumping on offers from suppliers, such as \$3 off each case ordered before the end of the quarter. That \$3 price reduction could be offset by costs that equal or perhaps even exceed the discount, turning that "great deal" into a money-losing proposition.

To avoid this pitfall you must identify what that case of inventory actually costs. The price paid to the manufacturer and any freight costs are easily identified and quantified, but there are some other indirect costs and implications of taking advantage of the bargain. First, take a leaf from the manufacturer's book and identify which of your costs are fixed and won't change because your inventory levels have increased. These costs include warehouse rent, management, and purchasing and payables departments. Then, pinpoint which of your variable expenses will increase with larger inventory levels.

If you borrow money to purchase the inventory, the cost of financing will be higher. Don't forget there's also an opportunity cost to paying cash, as this money is now used and isn't available for other needs or opportunities that may come up. With banks presently restricting credit lines, you could possibly use up your cash and credit line, thus preventing yourself from buying other products. This result would increase stock-outs and decrease customer service levels.

Holding and handling costs are probably the largest and yet most difficult to quantify. The more inventory you stock, the more time it takes to store, move and safeguard it. Costs can dramatically increase in warehouses with little extra space as you must consider the labor to move the products around more frequently. In addition, maintaining inventory counts will take longer. For example, perhaps additional warehouse personnel will be needed, there may be additional costs related to temperature control and spoilage, etc. Is there a danger of obsoles-

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## Con • nec • tions

1. The act of connecting, or the state of being connected.
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# Managing Inventory

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cence if it takes too long to sell the product? These outcomes are all factors that must be taken into consideration.

Additional variable costs will often not be recouped because it will be difficult to charge your customer a higher price simply because you incurred these expenses. You

may even have to reduce your price to induce your customer to buy! What started out looking like a bargain may turn into a liability you hadn't planned for.

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## SBA 504 Loans Remain Available

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increasingly important as a source of long-term financing when traditional sources of money decline as they have in recent months.

In spite of the credit crisis that continues to cripple many financial institutions and slowed lending for commercial expansion, CDCs are supporting entrepreneurs in virtually every U.S. market with SBA 504 loans for qualified small businesses. "The credit crisis hasn't frozen the SBA 504 loan program. Loans are still available for businesses seeking to grow through real estate acquisition, expansion of existing facilities, or purchase of new equipment," says Christopher Crawford, president of the National Association of Development Companies. "CDCs, our banking partners and the SBA are doing business as usual and will continue to do so for the long haul."

SBA 504 loans provide a steady source of new long-term capital at a fixed rate, and frequently with only 10% down on a new project for a small business. These loans are the perfect tool for conserving cash for operating expenses. A vacant commercial property in a neighborhood can represent an opportunity for a small business owner who needs more space. Now may be the perfect time to consider expanding into a larger facility, or simply seizing the chance to buy a first building at an advantageous price.

The CDC industry reports that virtually all lending partners using the 504 program are

still actively lending on SBA projects to qualified expanding small business borrowers. The SBA 504 loan program remains the ideal program for banks, as it mitigates private sector lender risk on commercial real estate financing through the use of an SBA guarantee.

Funds for the SBA 504 loan program come from the sale of long-term bonds each month. These bonds carry the full faith and backing of the U.S. government and present an attractive investment option for money managers, pension funds, insurance companies and other large institutional investors. The sales of SBA 504 bonds, known as debentures, have been successfully conducted every month for the past 27 years. Crawford concludes, "The amazing part about 504 is that it costs the federal government absolutely nothing, due to the low default rate costs that are covered by its low fees. Likewise, there's no requirement for a Congressional appropriation of funds for 504."

CDCs are located in every state and Puerto Rico. Contact your banker to find out how you can take advantage of this program.

*Kristen Tackett is a loan officer and president of Florida First Capital. She can be reached at kristen@ffoc.com or (904) 861-2270.*

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# The Importance of Strong Cash Flow Management

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## Inventory:

Inventory is often the largest capital investment for most businesses and if not properly managed, can become a significant strain on the company's cash flow.

The cost of maintaining inventory can become excessive especially when factoring in additional expenses such as shipping & handling, storage, necessary staff and insurance. The goal is to carry just the right amount of inventory to meet demand.

Identify and develop strong relations with reliable suppliers who can best deliver goods quickly and frequently so that you can keep inventory levels low. If necessary, mark down items that aren't selling well to avoid carrying excess inventory that may become obsolete.

## Accounts Payable:

Strive to build good relations with suppliers and vendors to better negotiate favorable credit terms and to create added value in your supply chain. Make payments to suppliers and vendors to your company's advantage. For example, payments can be stretched out if necessary or perhaps paid early to take advantage of any cash discounts.

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Effective cash flow management consists of a wide range of concepts and tactics, so we're only scratched the surface. The importance of cash flow cannot be overstressed. It's the lifeblood of any business. Strong cash flow management is necessary to keep your business healthy and competitive.

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