FINANCIAL SUCCESS TIPS FOR SMALL BUSINESSES Q&A

JIM WILHELM, CPA, DIRECTOR, SC&H GROUP

One of the biggest challenges to starting a small business is successfully managing all of the key financial aspects to ensure overall survival and success. It is no surprise that eight of ten small businesses fail within their first 18 months – many simply run out of cash. Sometimes business owners on a tight budget don't take a long-term view with their accounting, and are more concerned with what it costs rather than what they can save. However, if you get your accounting right the first time, it can save you money in the long run.

Following is an exclusive Q&A with **Jim Wilhelm, Director, Tax and Advisory Practice**, *who shares some insights on ways small- and mid-sized firms can plan and prosper amid the current business and economic landscape.*

Q: What needs to be considered when beginning a small- or mid-sized business?

A: Even before getting into systems, accounting or otherwise, you need to determine the structure of the company. What business form should you adopt? A proprietorship? A partnership? Limited liability company? Subchapter S? Any of these and others will drive the planning of your tax structure and can have a long-term impact on your ability to thrive or even survive the obstacle course that is the pathway to success. This start also will go a long way toward succession planning and your eventual exit strategy.

A clean accounting system, with qualified people to manage it, will help gauge the performance of the company by determining which benchmarks are being met. It also will keep you apprised of the company's cash position – the primary driver in budgeting and forecasting, and the tool you will use to assess the success you are having in meeting that forecast. Output from the accounting system, along with sound processes and proactive professionals managing the data, reports and other activities, can impact what types of risk you may or may not be willing to take.

Q: What are potential problems that can arise if you don't have an adequate accounting system?

A: Sometimes business owners on a tight budget don't take a long-term view with their accounting, and are more concerned with what it costs than in what it can save. However, if you get your accounting right the first time, it can save you money in the long run.

Your accounting system provides an owner and the management team with an objective picture of the business and facilitates better decision making. It is easy to get caught up in a labor of love, but the numbers won't lie.

Also, your accounting can impact growth. As you grow, issues, such as those regarding taxes, can develop and be exacerbated by inadequate systems. But those issues won't happen if the accounting is done properly from the start.

There are people who can do your bookkeeping on an as-needed basis: once a day, week or month, depending on your situation. They can have an impact without adding a substantial incremental cost.

Q: Why is it important to have a cash forecast and update it on a regular basis?

A: Like a meteorology tool, a forecast gives you a sense of where you are and where you are going. Cash burn is always an issue with a new and/or growing company. Sometimes small businesses just say, "I'm going to do what I can do and pay what I have to pay, and if there's anything left over, great. There's profit." However, this is obviously not a good long-term strategy.

A small start-up tends to focus on revenue more than profit. I've seen clients grow for the sake of growth, without really understanding what risks they're taking and whether or not those risks will pay off in profitability. You grow so rapidly that you're incurring cost and financing your workforce, but you have all of your accounts receivable (and profit) on the street.

It's important to have your accountants on board with your forecast, to help keep you apprised of your success in meeting the goals you established. And the forecast has to be up to date to help keep you ahead of the curve in identifying when cash injections are needed – i.e. you've got to go to the bank, you need an investor, etc. – as opposed to waiting to address those issues when it's too late.

Q: What are the issues to consider in financing?

A: This goes back to clean financials and sound processes. If they are in disarray, you're going to have problems at the bank.

When considering financial options, you should think long-term and weigh the costs and potential return. If you're a $4 million company today and believe you can grow to $100 million, you want to work with a bank that can provide the enhanced services and capital needs that you would expect to encounter down the road.

Financing is a still a challenge for a small- or mid-sized business, and it can be more of a challenge if your books can't withstand scrutiny.

Q: What other members do you need on your team to succeed?

A: You need to think ahead and plan for growth. The decisions you make in choosing key people who can help you at whatever point in the business life cycle in which you are operating, are among the most important that you will make.

You need a good attorney, accountant, banker, and insurance professional. Ideally, these people would consistently communicate with each other and provide coordinated, thoughtful advice to you, based on where you are today and where you want to be years from now. You also need good internal people - a solid office manager, a good sales leader (often the founder) and someone to manage your workforce as it grows.

Q:

As your business grows and you want to expand, what are some of the things you should consider?

A:

Decisions need to be considered with short- and long-term impacts in mind. As an owner, you need to carefully weigh decisions that could leave a permanent mark on your business.

As you grow, investment and profit potential drive expansion – but don't forget taxes. Expansion often creates opportunities from a tax standpoint. States and the federal government offer significant tax credits for growing businesses, including the Research and Development Tax Credit, employment tax credits, training grants, favorable loan structures and more.

Growth can also create some complexity and exposure. If you're expanding by putting three people in a new office in a new state, now we have to look at sales tax and income tax filings in that new state. But opportunities may also be created for tax credits or other benefits. If you're expanding and want to buy your building, there are tax and business risk issues around that as well.

Many of the decisions you'll make in managing your growth and expanding will have their roots in the steps you took to start your company – from its structure, to the forecasts and cash management procedures you set up, to the risks you took and the people you chose to help you along the way – including your accountant.

ABOUT JIM WILHELM *Jim is a Director within SC&H's Corporate Tax & Advisory practice where he has successfully represented many clients before various Federal and state taxing authorities through examinations and appeals. Jim has broad, thorough knowledge and expertise across multiple business and individual income tax situations. In addition to guiding clients through mergers and acquisitions, ESOP implementations and tax due diligence engagements, he oversees many value-added tax projects. These include consulting with clients on issues such as succession and estate tax planning, employee benefits, and tactical tax planning. Jim has been published in The Baltimore Sun, Baltimore Business Journal, The Daily Record, The Business Monthly and several trade organization periodicals, keeping readers apprised of current income tax regulations and strategies. Jim has twice been named as a SmartCPA in 2007 and 2010 by Smart CEO Magazine. Jim is a member of the Maryland Association of Certified Public Accountants (MACPA), and The American Institute of Certified Public Accountants (AICPA).*

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