How You Can Best Secure Your Company's Financial Future

Getting past the first year of owning a business is an achievement unto itself, and it's even better if you've made it through the second year.

If you've made it to this point, congratulations! Now you have to look at the future of your company and how you're going to make it there. To that end, you need to secure your financial future by taking proactive steps, maintaining revenue streams, and finding new ones. Read on to learn more about how you can improve your company's performance and keep it operating decades from now.

Set Higher Production Goals

You have a product that sells well and you feel there's room for more production, but you're not sure how to increase its sales. The obvious answer is to make more sales calls, but that's only part of the answer. Yes, there is the option to send out sales people to find more outlets for your product and that should be part of your strategy. But there are other things you can be doing to raise your production output.

INCREASING PRODUCTION ON SEASONAL STOCK

Start by contacting your current buyers to find out if they want more stock available to them, even if you have a seasonal item. Focus on how you can increase production for something you make for part of the year. It's not unusual for a seasonal item to sell out at the beginning of the season. If there are no more items in stock, there are no more sales because there's no product on the shelf.

Your buyers have noticed that there's a trend to sell out of your product every year but haven't put any thought to the idea of asking you to produce more. Or, they feel that you won't put the machines back into production because it's past the time to make them.

Approach your customers to find out if this is the case. They might want to order more stock from you in order to increase their own sales and respond accordingly when they find out that you're offering more product. You can always sweeten the deal by giving them a buyback incentive for any unsold stock at the end of the season. It's a bit of a gamble, but it's one worth taking if you know your product sells well on a consistent basis.

IMPROVING THE QUALITY OF A POPULAR ITEM

You're selling a physical or nonphysical item that has steady sales, but you want to sell more of it. This is an opportunity to invest some profit back into the item and improve upon it. Go back to the drawing board, do market research if necessary, and find where change can do the product good.

Some of the improvements include using better materials for a sturdier and more durable product, changing a user interface to be more intuitive or have a cleaner layout, or doing a redesign to overcome a flaw. The improvement does make the product last longer, but customer satisfaction is key to getting a return customer and generating word of mouth.

This is a slower method of increasing production, but sometimes creating long-term return on an investment keeps the company afloat for decades. Some businesses stay open by focusing on selling a handful of quality products instead of 100 mediocre items. A company that creates a reliable product is far more likely to encourage customers to come back year after year for more as opposed to a mediocre product that breaks frequently.

CREATING DIFFERENT QUALITY LEVELS

Your main product is only sold to a certain income level because that's the only ones who can afford to buy. Why not strip away some features of that product or find ways to create a lesser version that's more accessible to a wider pool of buyers? The benefits are that the production costs are lower, and the popularity of that item gives you more profitability because more people are now able to afford it.

There is an argument to be made that you're diluting your brand. Getting around this is a matter of making sure that the more affordable item is just as well-made as its more expensive counterpart. Also, make it clear that the lower priced item does not have the same features due to its lower price point. It's a way of shaping the consumer's expectations so they understand that they don't get the extras that come with the more expensive version.

The consumer might find that the product is worth having even without the extras. Their experience with the lesser version may also have them consider saving their money to buy the full-fledged version in the future.

Increasing production takes a little creative thinking, but it does help to establish your company as a manufacturer of a consistently reliable product that is worth having and as a company that works hard to keep its customers happy.

Create a Solid Financial Footing

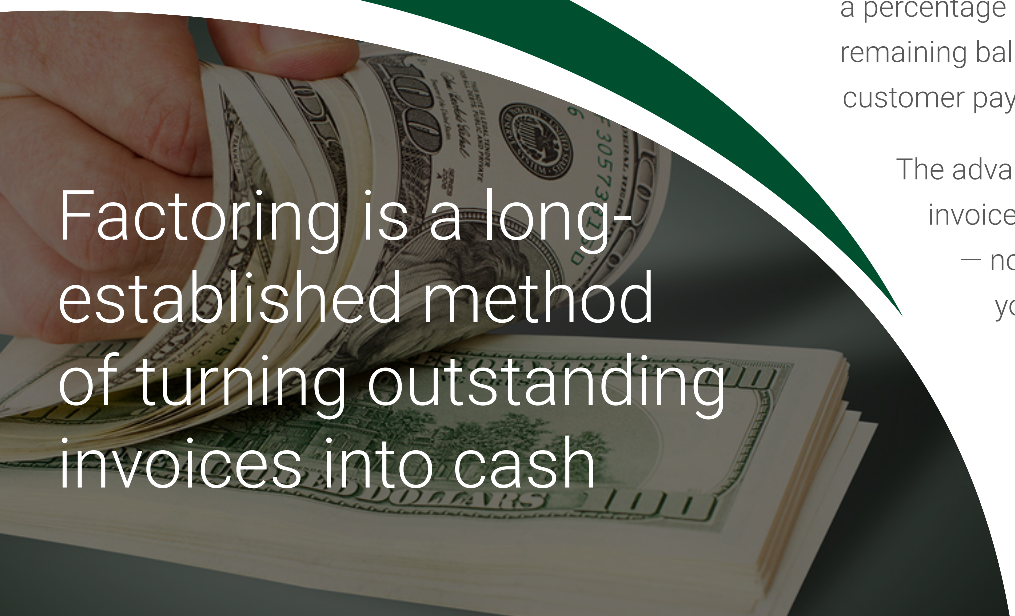
Finances are the lifeblood of the business. Without them, you can't make your product. You need money to buy equipment, supplies, and tools, and you must pay employees. As your business matures, your product generates the revenue needed to pay for all the costs, but sometimes it's not enough. Opportunity knocks when your funds are low, something breaks and it's expensive to fix, or you need to bring on an employee for a short time and you need to pay them fairly.

These and situations like them are why it's important to have good business credit and take advantage of different forms of funding on short notice. Some of your options include a line of credit, factoring, credit cards, and short-term loans. All of them have their disadvantages and advantages. It's a matter of which one fits your needs when you need it.

FACTORING INVOICES

Factoring is a long-established method of turning outstanding invoices into cash, and it's used by many industries to this day. The factor, or factoring company, takes your unpaid invoice and advances you a percentage of the outstanding balance. You get the remaining balance, minus fees and interest, when the customer pays the invoice in full.

The advantage to factoring an invoice, or multiple invoices, is getting the cash sooner than later — no waiting for the customer to pay when you're in a bind or need to move fast on an opportunity. And you have



the option to factor multiple invoices from the same customer to generate enough cash for whatever you need. Going this route avoids the need to apply for a loan with a bank or take an expensive cash advance from a credit card, both of which can cost a lot of money in the long run.

LINE OF CREDIT

The line of credit is similar to a credit card in that it's money you access when you need it. It involves calling up the bank and asking for an advance against the line of credit for a specific amount. The bank advances it to you by depositing it into your account. There may be a fee charged for the request, and interest gets charged on the outstanding balance until you pay it back.

A line of credit is intended to be a very short-term loan. You can opt to pay it back over a longer period of time, but the interest rates are usually higher than they would be for a regular loan. This can be a disadvantage for when you want to jump on an opportunity, but it's one that won't return a profit for some time. That's when you're better served by a short-term loan.

SHORT-TERM LOANS

These last anywhere from 90 days to 18 months. A bank looks at the circumstances behind the request for the loan and lends accordingly. A smaller, less established business won't get the same terms as a larger, more established business. Plus there's the need to apply for the loan and wait for approval. Again, banks tend to not work fast with smaller businesses that don't have much of a credit track record. This is why many businesses turn to alternative forms of lending that include factoring.

CREDIT CARDS

Credit cards are an excellent tool for fast purchases, such as supplies or small equipment for the business. They also help build the business's credit rating, as the bill is repaid every month. And, credit cards are beneficial in that you can use them to entertain a potential customer without the hassle of cash. But that's all they're good for, and their use in a business setting needs to be limited to needs and purchases that can be expensed on taxes.

Credit cards are essentially a line of credit that comes with high interest for the luxury of repaying the loan at your own pace. Their cost of use is on the high side, and the interest rates are much higher than what a bank typically lends at. Use cards wisely and focus on their use as a means to build credit instead of as a convenient way of paying a bill.

USING DIFFERENT FINANCING OPTIONS TO BUILD CREDIT

All of these options help your business build a credit rating that allows it to stand on its own. Chances are strong that you started your business by using your own credit rating and it's become tied to the business. When your business has its own credit profile, you can untie your personal rating so that it doesn't play as large a role when obtaining credit.

Getting loans of various types and repaying them is the simplest way of creating a solid financial foundation for the business. It allows you to get money quickly and with favorable terms as the business ages.

Bring in Outside Help

A young business still has the potential to not have the capability to see when it's running into trouble. It's this point when the phrase "can't see the forest for the trees" applies. You can't be objective and step back from your business to see where

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things are going wrong or right. You run the risk of creating a situation that you can't easily get your business out of. This is why it's a good idea to have a consultant come in and give you an evaluation of your business.

Bringing in an outsider, preferably one who's familiar with your industry, is beneficial in that there's a fresh pair of eyes looking at everything. That outsider has no emotional ties to the operation, knows how similar businesses operate, and can find areas that you need to strengthen, advantages you're not taking, and openings that you think are closed to you. You do have to be willing to accept the advice and use it as it is outlined. Setting aside your ego is never easy, but it's necessary if you want to find ways to keep your business productive.

An outside consultant goes through the operation from top to bottom, missing nothing. It's his or her duty to inspect your operations, talk with employees, learn what common problems are, why they're not being solved, and how to change the way you do business. It's not always a good feeling to find out that you're doing something wrong, that you could stop it, and are failing to do so. But you need to get past that feeling and get to work implementing the solutions provided to you by the consultant.

Enhancing Profitability

Profits tend to fluctuate due to different influences, but you can find ways to increase profitability no matter if profits are in an up or downswing. It's all in how you "find" money.

Every business has costs. Some are sunk costs, while others are variable due to outside influences. Your goal is to find cost savings throughout the entire operation. This is called "running lean," as it involves stripping out every last extra expense and waste you can find, negotiating supply contracts to get the best possible price, and putting in terms that are favorable to your company whenever possible.

CREATING A LEAN OPERATION BY REDUCING WASTE

This is something that employees tend to dislike, as it makes them more aware of what they're doing and how they're doing it. Instead of making the act of reducing waste feel like a punishment, turn it into a benefit.

Track the savings that the employees are generating and use some of the savings to give them a reward of some kind. Encourage everyone to "budget" their use of supplies in the office and on the production floor, and only use more when absolutely necessary. This could be seen as a form of penny-pinching, but it's not. Waste adds up over time if it goes unchecked. Making it a goal to reduce waste and stopping wasteful habits works in your favor by giving profitability a boost.

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NEGOTIATE FAVORABLE TERMS FOR RETURNED ITEMS

Some industries have an unsold return arrangement with their customers. That is, when a product is unsold for so many days, the customer has the right to reduce the price to get it to sell. And if it never sells, the customer also has the right to return the excess to the manufacturer. These terms are negotiable to a degree.

You may have the opportunity to sell unsold inventory directly to a third-party discounter instead of having the product returned to you. Or you might give the customer permission to clear out the product at a rock bottom price instead of having it returned, then finding a way to dispose of the product.

You want to carry as little physical product at your location as possible. Storing unsold merchandise is costly in that it takes away valuable floor space and keeps the product hanging around in the warehouse instead of on a retail shelf. Putting the burden on the customer to dispose of the unsold merchandise helps you keep your business moving forward instead of sitting on stuff that should have been sold through other means.

ASK FOR THE LOWEST POSSIBLE PRICE

It's normal to negotiate supply contracts or purchases of equipment in quantity. And you won't destroy a working relationship with a vendor simply by asking for their best price. The vendor will either tell you no or offer a discount schedule if you buy so much of the product in a certain timeframe.

Or, the vendor might ask you to sign a contract stating that you agree to buy a specific amount of supplies throughout the course of the year in order to get the best possible price. Lowering your supply costs on a one-time or repeating purchase keeps money from leaving the business and puts it into the profit column.

These are some of the ways you can secure the financial future of your business. Your ultimate goal is to make sure the business has sound finances and money on hand to take advantage of opportunities as they arise.

Contact FSW Funding today to learn more about how we can help you with your financial needs and give your business a financial boost when an opportunity arises.