

PATHWAYS TO PROFIT

When outsourcing makes sense — and dollars for a company

Outsourcing — in this case locally, not overseas — is primed for growth. More than 70 percent of the senior executives interviewed for a study conducted by Accenture and the Economist Intelligence Unit predicted that demand for outsourcing would become even more prevalent over the next three years.

For many, the decision to outsource is purely a financial one. Does it cost more money to hire the talent in-house or to outsource? An increasing number of executives are finding that outsourcing can create a strategic advantage, especially for a growing company whose needs are often rapidly changing.

The most common functions to outsource are such services as accounting, payroll, information systems, sales, marketing and human resources.

Successful outsourcing relationships enable business owners and chief executive officers to focus on their own core competencies, eliminating the daily tactical to-do lists (working in the business) that keep them from spending time on the big picture and strategic initiatives (working on the business).

As an example, all companies need relevant, timely and accurate financial reports and analyses. Whether Fortune 500 or a smaller emerging business, the needs are very similar.



BY LEAH THISS

Unlike their large corporate counterparts, small and midsize businesses cannot afford to staff an accounting department with specialists in each area. Many companies over- or under-utilize the accounting employees they do hire — perhaps expecting a controller to perform bookkeeping functions or an accounting clerk to provide financial analyses.

An outsourced accounting services company can provide the right services and skills at the right times. A company's requirements may be for a CFO/controller a few hours each month for planning; a bookkeeper a couple of hours daily to maintain data entry; and an accounting clerk a few hours weekly to review the data, prepare reports and make collection calls.

The key is that the company only pays for the professional level it needs for the time it is needed. In this scenario, the company secures access to the high-level strategic financial expertise that will propel its growth while maintaining its day-to-day accounting needs with the most cost-effective mix of talent.

The value of outside services has been enhanced in recent years with the utilization of state-of-the-art electronic communication systems that operate transparently, away from a client company's headquarters.

This technology allows the outsourced team to interact with a company's in-house employees as if they were just down the hall on a daily basis. This makes the integration and acceptance of outsourcing more practical for any size business.

Although outsource companies are sometimes confused with temporary employment services, true outsourcing companies maintain regular full-time professionals who develop working relationships with their clients. They operate as an extension of their client companies.

The rapport and commitment developed between clients and outsourced professionals are difficult to find with traditional part-time or temporary agencies.

So, when does outsourcing make sense? If you're a growing company, your needs are constantly changing. Having a flexible support team that can quickly refine its talent mix to support your needs will give you the edge you need to keep your momentum going.

If you're a small to midsize business, chances are you cannot afford to hire the breadth of expertise you may require in any given functional area. With few exceptions, outsourcing is a viable option that can result in operating cost reductions and better strategic insight.

If you're a company that is seeking change, an outsourcing team can bring an outsider's perspective and the ability to see past the way things are done to the possibilities of how they could and should be done.

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Yuma Business Direct

YUMA COUNTY'S BUSINESS VOICE

VOLUME 5, ISSUE 11, November 2006

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Know your financials when seeking financing

Before you rush in to request financing, be sure you are prepared. Remember, the bank is investing in you.

Put in some time and effort up front to be sure they see the very best "you." Know the industry you are in and how your firm fits in.

Above all else, make sure your financials are in order. The strength of your financial knowledge will have a huge impact on your ability to borrow.

While there are many funding options, there are two primary types of business bank loans.

A line of credit (LOC) for a business works much like that of a credit card for an individual. It allows you to draw against and pay back the line several times during the life of the loan. Oftentimes, the LOC is used to cover costs of doing business while waiting to collect receivables.

A long-term capital loan is typically used to purchase a large tangible asset, such as a building or equipment. The proceeds of the loan are paid out in one lump sum up front and payments are made according to a schedule with a predetermined payoff date.

In both cases, the loans are secured by the company's assets. This is done through a standard UCC filing, sometimes referred to as a blanket lien. This filing covers all assets of the business in the event the business fails to make payments.

The benefit to the LOC is flexibility. It can be used for various purposes and

borrowed against several times. The benefit to the long-term loan is the set payment schedule that allows the business to budget accordingly.

The risk of each loan from the borrower's standpoint is similar, as the assets of the business are being used as collateral in both scenarios.

The risk from the bank's standpoint is slightly riskier with the LOC because the assets secured with the UCC filing (i.e. inventory, receivables, etc.) may be difficult for the bank to deal with if foreclosure becomes necessary.

The loan application will require information on the business, a personal financial statement and typically a guarantee from individuals with more than 20 percent ownership.

Usually, the bank will ask for two or three years of business and individual tax returns.

In addition, they will ask for two or three years of financial statements. They will also require accounts receivable and accounts payable aging reports. Government-backed loans such as those by guaranteed by the Small Business Administration require much more paperwork and documentation.

Bankers say that many business owners are reluctant to provide sensitive financial data until they're quoted rates.

Since it is nearly impossible to quote accurate rates without knowing more about your business, you need to feel confident in the person to whom you are submitting your documentation and trust that the information provided will be kept confidential.

The more information you provide, the more smoothly the process will go.

If you are unsure about your company's finances or do not currently generate monthly financial reports, hire pro-

fessional help to put the appropriate accounting system in place before you seek financing.

This is a solid investment, even if you don't have a need for funding today.

Good monthly financial reporting will help you monitor the financial status of your company, prepare for taxes, manage cash flow, and establish seasonal benchmarking so that you can plan for seasons accordingly.

With the right accounting system and accounting professionals, pulling together the required information for a loan application will be easy.

Armed with the ability to clearly state your financial position and having the data to justify the funds being requested will help to create confidence in you, your professionalism and in the end, your ability to meet your repayment obligations.

One banker told me, "We will always ask a borrower 'How will this loan improve your bottom line?' The answer you give to this question tells us how much research you have done and how confident you are in the success of your business."

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