Dallas Business Journal
Date: Thursday, June 03, 2010
Location: DALLAS, TX
Circulation (DMA): 15,613 (6)
Type (Frequency): Magazine (W)
Page: 31
Keyword: Professional Employer Organization

Controlling your cash, dealing with health reform

FRONTLINES

Chris James

Recent significant state and federal legislative changes present opportunities and challenges for small and midsize businesses. Chief among them is health care reform. Business leaders should be aware of some best practices and strategies that can help offset the effects of this landmark legislation.

But before analyzing specific tools that can be used to offset health insurance costs, you must establish the basics. A question that every business owner must ask first is: "Am I in control of my cash flow, or is it controlling me?"

All businesses should have tools in place to understand their cash position. These tools include cash flow forecasting, gross profit optimization and a balanced scorecard. These basics must be in place in order to have your cash flow under control and understood.

Creating and updating a cash forecast is vital for an organization. A good cash forecast estimates not only the cash generated from sales less expenses (an income statement), but also the amount of working capital needed to support operations. This forecast will determine loan covenant compliance and how much cash is needed to meet obligations like federal taxes.

Optimizing a company's gross profit helps a company avoid problems with prices that are too low and direct costs that are too high. In addition, a company must have a margin comparable to its industry, in order to have adequate margins to pay for fixed costs.

When a company is generating adequate sales but gross profit margins are low, it signals an issue with a low selling price or higher cost than other business peers. A lack of understanding often leads to decisions that only worsen the company's position, such as attempting to increase sales via lower prices, leading to even smaller gross profit margins.

A balanced scorecard is about creating a business strategy where all your moves fit together in an easy-to-understand, cause-and-effect chain of events. It's also about setting goals and measuring performance, and about how you communicate to keep everyone on your team up-to-date and give them a clear line of sight from their own actions to the company's end result.

Most important, it's about taking your strategy and turning it into do-able action that everybody understands and can be held accountable for.

Co-employment, direct health

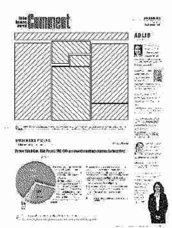
Health care legislation will have a huge impact on business and its cash. Two strategies that companies may want to consider are professional employer organizations and direct health companies.

A PEO as a single-source provider of integrated services that allow business owners to cost-effectively outsource the management of human resources, employee benefits, payroll and workers' compensation and other strategic services, such as recruiting, risk/safety management and training and development. It does this by hiring for the client company thus becoming their employer of record for tax purposes and insurance purposes. It then leases them back under contract to the original employer. This practice is known as co-employment, employee leasing or staff leasing.

PEOs benefit from aggregation of employee headcount: by combining the employees from multiple clients, they qualify for lower premiums on health insurance plans.

Another alternative a business owner can use is a direct health company. These companies eliminate the middleman and maximize employer control over employee health care planning and related costs. A direct health company works with insurance companies for several clients, thereby improving efficiency in claims processing and eliminating the need for a broker.

No matter what size or number of



Dallas Business Journal
Date: Thursday, June 03, 2010
Location: DALLAS, TX
Circulation (DMA): 15,613 (6)
Type (Frequency): Magazine (W)
Page: 31
Keyword: Professional Employer Organization

employees, all companies must have tools and strategies in place. Regardless of the economic climate, business owners need to control their cash, and not have their cash control them.

JAMES is a partner with B2B CFO. He can be reached at cjames@b2bcfo.com.