TALENT IS NOT ENOUGH: BUSINESS SECRETS FOR DESIGNERS

Revised and expanded third edition

SHEL PERKINS

"Now that design skills have become a commodity, you need business skills to focus them. Shel Perkins has written a crackerjack book that will be on the shelf of every ambitious designer."
Marty Neumeier
President, Neutron LLC; author of *Zag* and *The Brand Gap*

"This is the best left-brain business book I've ever read for right-brain designers. And, having two right brains, I know what I'm talking about. I'm recommending Shel's book to every student of mine and buying a copy for each designer on my staff."
Brian Collins
Chief Creative Officer, Brand Integration Group,
Ogilvy & Mather Worldwide

"Damn good advice! This is a fantastic business handbook for designers. It's loaded with the specific, usable, real-world business knowledge that designers need. Shel has done a masterful job of making the information simple, clear, and easy to follow. This is a must-have book for any designer who wants to succeed in business."
Billy Pittard
President, Pittard Inc.

"This is the most concise and brilliantly informative guide I have ever wished I'd read before establishing three studios for ATTIK. Shel has managed to capture a vast array of learning that most of us only gather after many years of trial and error — a guide that every independent designer or agency owner should have within arm's reach."
Will Travis
President, U.S. Operations, ATTIK

"Shel Perkins' book Talent Is Not Enough *is a gift to the design community. It is an extraordinary resource jam-packed with wisdom, advice, and sage counsel. It is truly a business bible for professional designers."*
Debbie Millman
President, Design Group, Sterling Brands;
host of *Design Matters* on VoiceAmerica Internet Talk Radio;
author of *How to Think Like a Great Graphic Designer*

should come to you for additional review and a second signature.

- You should establish dollar limits for other types of decision making as well. For example, purchase orders above a certain amount should require a second signature.

Other measures

- It's a good idea to separate purchasing authority from payment authority. The person who identifies and negotiates with vendors should not be the same person who later writes them a check.
- Each time a check is drafted, it should come to the signer with supporting information attached. For example, a large vendor invoice would typically be matched to a purchase order and a packing slip. These may be needed to answer any questions before the check is signed.
- Envelopes from the bank should be opened first by the owner of the firm, especially those containing account statements and cancelled checks. Quickly review the contents before passing them on to the bookkeeper for reconciliation. Look through statements for any unusual activity. Look at the names, amounts, and signatures on the cancelled checks to make sure that there have been no changes or forgeries.
- Avoid cash transactions in your business. Do this by using checks or charge cards for all activity so that there is a clear paper trail. Avoid writing any checks to "cash." Avoid having a petty cash fund on hand — it's much too easy to lose track of when and how the currency is spent.
- Finally, have your CPA do a periodic audit of the company's books. Many people are under the impression that audits are conducted only in connection with tax disputes, but the term "audit" refers to any professional examination of your company's financial records. The purpose of an audit is to gauge the accuracy, appropriateness, and consistency of your company's accounting practices.

Chapter 14:
Cash flow

Managing cash effectively is an important challenge for all creative firms. "Cash" includes not just currency but also checks, money orders, bank transfers, and the like. The term "cash flow" refers to the overall movement of money into and out of your business during a given span of time. If a company has positive cash flow, money will be available for such things as expanding operations or making distributions to the owners. However, if a company has negative cash flow, it may have to borrow money to continue operating. This chapter will help you get a handle on this vital business issue.

There are three standard tools used by well-managed businesses to analyze their cash activity:

- A short-term cash flow projection
- A long-term cash flow projection
- A cash flow statement

Let's discuss each of these tools individually.

Short-term cash flow projection

This is a forecast of the cash that you anticipate receiving and disbursing within the next sixty days. It's usually organized into four columns, each representing a fifteen-day span (see Figure 14.01). In order to prepare the projection, you must first print two small reports from your financial system: an updated accounts receivable aging and an updated accounts payable aging. An accounts receivable aging report is a list of unpaid client invoices, usually grouped by name. On the left, each invoice is listed in order of the date issued. On the right, there are columns to identify how long you've been waiting for payment. You can set these preferences in your financial software — for example, "current" (less than 15 days), "15 to 30," "30 to 45," and "45 or more." Unless a client has informed you to the contrary, your expectation is that the oldest invoices will be paid first. Your accounts payable information should be aged in the same way. Typically, you'll pay the oldest vendor invoices first, although priorities sometimes shift. Don't forget that you may have a few additional obligations that do not go through the accounts payable system, such as monthly rent, payroll, and loan payments. We'll list these as "direct disbursements."

To start your short-term cash flow projection, enter your beginning cash balance at the top of the first column. This should include the amount in your checking account plus cash reserves such as savings accounts or money market accounts.

Now, enter all anticipated receipts and payments (from your aging reports, plus direct disbursements) into the appropriate columns. Within each fifteen-day period, you'll see the beginning balance, the expected cash in, the planned cash out, the net change, and the ending balance that will result. The ending balance at the bottom of the first column becomes the starting balance at the top of the next, and so on. This short-term format is very

Figure 14.01. It's important to note that this shows open receivables as of today only — future billings are not included. Similarly, it shows open payables as of today only — future purchases are not included. If you had to close your doors today, this is how cash activity would wind down. You don't want the final balance to be negative!

60-DAY CASH FLOW PROJECTION

All amounts as of: **October 1**		*Oct 1 to 15*	*Oct 16 to 31*	*Nov 1 to 15*	*Nov16 to 30*	*Later dates*
		BEGINNING BALANCE				
Cash on hand						
Checking account	*30*					
Savings account	*5*					
Combined	*35*					
Total beginning balance		35	2	22	2	0
		CASH IN				
Accounts receivable aging						
Over 90 days	*2*	2	0	0	0	0
60 to 90 days	*6*	3	3	0	0	0
30 to 60 days	*100*	0	50	50	0	0
0 to 30 days	*142*	0	0	0	71	71
Total accts receivable	*250*					
From other sources						
Line of credit		0	0	6	0	0
Loans		0	0	0	0	0
Total cash in during period		5	53	56	71	71
		CASH OUT				
Accounts payable aging						
Over 90 days	*0*	0	0	0	0	0
60 to 90 days	*12*	0	6	6	0	0
30 to 60 days	*60*	0	0	30	30	0
0 to 30 days	*20*	0	0	0	10	10
Total accts payable	*92*					
Direct disbursements						
Rent		5	0	5	0	5
Payroll		27	27	27	27	27
Sales tax		6	0	8	0	0
Repay line of credit		0	0	0	6	0
Loan payments		0	0	0	0	0
Total cash out during period		38	33	76	73	42
NET CASH FLOW		-33	20	-20	-2	29
ENDING BALANCE		2	22	2	0	29

conservative. It shows only actual amounts that are already on your books. It doesn't factor in any potential or speculative future activity.

Update this projection every week before you make any disbursements. Most design firms try to prepare the majority of their checks in one weekly batch because it's a more efficient approach than writing checks in dribs and drabs.

If your short-term projection shows that cash will go negative during any of the upcoming fifteen-day periods, you need a plan for dealing with that temporary shortfall. Your options include the following:

- Speed up receipts
  It's difficult to get clients to pay early, but you can definitely speak with any clients who are habitually late. Negotiate with them to bring their payments up-to-date.
- Slow down payables
  Some business expenses, such as payroll, rent, and taxes, must be paid on specific dates. However, you may have more leeway in scheduling payments to vendors. If you're facing a cash shortage, it may be possible to negotiate with some vendors to slow down your payments, perhaps by breaking large invoices into a series of partial payments. On a related note, many design firms pay vendors for project-related expenses only after client money has been received. Be cautious about this, however. It's important to be fair to your suppliers. If you happen to be late in billing a client, or are in a dispute with the client over an unrelated matter, the vendor should not suffer for it.
- Borrow
  If you're facing an immediate deadline such as payroll, you might consider short-term borrowing. Many design firms anticipate these situations by setting up a line of credit from the bank. If you're thinking about applying for one, the size should be modest (just enough to cover one or two months of overhead expenses) and you should submit the paperwork at a time when you don't actually need funds. Later, when you exercise the line of credit, you must be diligent about repaying it promptly to minimize the total interest expense.

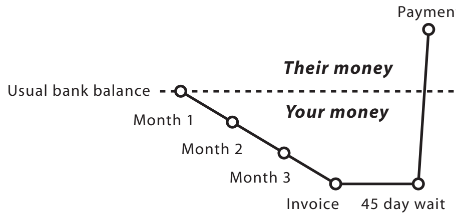

Figure 14.02. If you wait to bill the client at the end of the project and then wait another 30 to 45 days for payment, you will have to cover labor and other expenses in the meantime. This means that your cash will be tied up in work-in-process inventory.

- Obtain additional investments from owners
  It may be possible to arrange additional cash inflow from the owners of the firm. That is to say, owners might use personal funds to increase their equity stake in the company.

Maintaining healthy cash flow is crucial to the success of your design firm. You need to have enough cash available to pay creditors, employees, and others on time. Several basic business practices will make this easier for you:

- Always ask for an up-front deposit before commencing a new project, especially if it's a large one.
- On large projects, don't wait to bill everything at the very end. Instead, submit a series of progress billings (see Figures 14.02 and 14.03). Send invoices at least monthly.
- Make sure that your invoices are self-explanatory. Include complete reference information (requisition number, purchase order number, contact name, and so on) so that invoices are very easy for large client organizations to process.
- Follow up on unpaid invoices by sending each client a month-end statement of account, providing additional copies if needed, and phoning on due dates to inquire about payment status.
- Collect the full amount of each invoice. This is sometimes a challenge for recent grads and small firms. If you have a fixed-fee agreement in place with your client and you've provided everything that you promised, don't let the client get away with paying you less. The time for the client to negotiate pricing is before the work is done, not after.