



# Good Business for Small Business

## Handbook

Best financial practices for  
Canadian businesses



[www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness)



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## Introduction

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Small businesses face many significant challenges while starting up and in their regular day-to-day operations. The 2<sup>nd</sup> edition of this handbook is intended to provide an overview of practices that many Canadian small businesses have found helpful to improve their operations, manage their businesses more easily and ultimately become more profitable. The suggestions made here are described as “best” practices because they have been identified in and used by both public and private organizations that performed exceptionally well and are also widely recognized as improving an organization’s performance and efficiency in specific areas. It is important, however, to remember that no two businesses are alike and that the applicability of a particular best practice will depend on the nature of your business and its level of development. This handbook covers eight key areas where small and medium-sized businesses often find opportunities for improvement:

- Financing
- Cash Flow Management
- Procurement
- Sales and Marketing
- Record-keeping
- Risk Management
- eCommerce
- Import/Export

**Please note:** The practices outlined in this handbook are intended to be indicative only. Individual situations will vary. The content of this resource is intended as a guide only. Your approach to practice implementation should be tailored to fit the requirements of your individual situation.

### Want to know what it means?

Check out *Visa’s Business Glossary* at <http://www.visa.ca/smallbusiness/businessstools/glossary.cfm> to find out the meaning of certain business or technical terms.



## I. Financing:

Getting money to start and  
run your business



## I. Financing:

### Getting money to start and run your business

Virtually every business will require some sort of financing to establish its basic operations (start-up financing) as well as to keep it running smoothly (ongoing financing). While most businesses rely to some extent on financial support from a source outside of the business (for start-up and/or ongoing financing), it is important to remember that the cheapest and most effective way of financing your business is by improving cash flow within the business. (See Section II: Cash Flow Management)

Start-up financing often comes from the business owners themselves, as well as friends, family and associates, who usually receive some kind of ownership stake (known as equity financing) in the business. Joint ventures or partnerships with other organizations may also be a financing alternative if the business requires additional resources.<sup>1</sup> Very rarely do venture capital companies or “angel” investors provide equity financing to small businesses, and then usually only if such businesses offer a promising product or technology.

The most common alternative to equity financing is debt financing. In fact, most businesses of all sizes use debt financing (such as loans or other forms of credit) to some extent. With debt financing, no equity in the business is shared with lenders, but the type and amount of financing available will depend on the borrower’s net worth, income, assets, and cash flow.<sup>1</sup> Debt financing is often used to pay for large capital expenses that are required to start up the business, as well as for helping to finance ongoing operations.

**For more information on the financial perspectives of starting, managing, and growing your small business, please see the 2007 Visa Financial Guide at [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Business Tools > Visa Financial Guide**

Potential sources of debt financing include:

- Traditional lenders, such as banks, credit unions, caisses populaires, trust companies, etc.
- Niche providers such as commercial lenders and equipment leasing companies
- Government ministries and agencies

### Did You Know?

- 47% of small businesses report that they have borrowed funds in the past to pay for business expenses, with business loans and business lines of credit being the most common methods of borrowing.<sup>2</sup>
- To assist small businesses in securing financing, loan-guarantee services are available from government agencies such as the Canadian Small Business Financing Program, which act as a guarantor and will repay a portion of borrowed funds back to the lending institution if the business defaults on that loan.<sup>3</sup>

## Best Practices for Start-up Financing

### 1. Understand what lenders are looking for

Ultimately, a lender's decision to lend to you depends on whether they are confident that your business will be able to pay the money back. To make your case you'll probably need to "sell" them on both you and your business. Some tips for making that easier include:

- Demonstrate that the business is viable: Reasonable financial projections and a sound business plan are essential. Your financial analysis should present conservative assumptions, project outcomes under various scenarios, and clearly display your ability to repay.<sup>4</sup> While each business is unique, consider using assets such as accounts receivable, inventory, or plant and equipment as collateral for borrowed funds. Having proprietary products or services may also enhance the attractiveness of a venture.<sup>1</sup>
- Show that you're savvy: All lenders, from banks to venture capitalists, point to the capability of the management team as the number one reason behind success or failure. Convince lenders that you know what you're doing by communicating your qualifications, past successes, and the logic and rigour behind your plans.<sup>4</sup> And remember, one of the easiest ways to lose credibility is to have unrealistic financial projections.
- Demonstrate a good credit history: Even if it's just your personal credit history, lenders look to past performance as a guide to assess what your behaviour might be like in the future. Also, using a business credit card devoted exclusively to use with your business, such as a *Visa*<sup>®</sup> Business card, helps your business develop a credit history independent of your own, which in turn will generally help your business in accessing financing.

For more on working with lenders, look at “Four Tips for Keeping Your Investors Happy” and other related articles at [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Articles > Finance.

## ***2. Study success: Compare yourself to others and understand what has worked***

The financing options available to small business and the appropriateness of different options can vary depending on the industry and the geographic region in which the small business is located. Benchmarking, or learning from what other businesses like yours have done, is a powerful way to identify what the most likely sources of successful financing will be. Local business forums or chambers of commerce often offer opportunities to tap into the local business network and understand how others have secured their financing.

Comparing yourself to others will also allow you to better structure your debt and capital to fit your assets and industry. Different businesses have different capital requirements and cash flow patterns, and you want to make sure that you understand what is standard in your industry, because lenders may use those standards when deciding if you're creditworthy. Also, it helps to understand the types of financing that businesses in your industry typically use, whether they be equity and/or debt financing (such as demand or term loans, lines of credit, equipment leases, etc.). Look to trade associations, local business networks and chambers of commerce or your local banks for more information.

## **Best Practices for Ongoing Financing**

After start-up, businesses typically require money to finance capital investments, such as equipment, and any potential growth. To meet short term obligations, small businesses can access a number of sources such as lines of credit, trade credit (when a supplier allows you to defer payment of what you owe them), credit cards, asset-based financing, factoring, leasing, etc. The considerations for acquiring additional financing for growth are similar to those for financing start-up companies, except that it's often easier to get financing once you have a track record and a revenue history. It is also important to pick the right financing from the alternatives available. For example, to make large investments in items such as equipment or real estate, it may be appropriate to choose longer-term financing to spread the cost over time and maximize current funds. To assist with everyday operations, shareholders, investors, and financial institutions may be able to provide financing.<sup>3</sup> What many businesses overlook, however, are the opportunities to reduce the amount of money tied up in working capital.

### **1. Let the business finance itself: Improve cash flow to finance your business**

Working capital describes how much money you have tied up in the ongoing operation of the business. It can take the form of inventory, accounts receivable or credit that you've extended to customers. Freeing up that cash releases it into the business to fund growth or other capital needs. See Section II: Cash Flow Management for an overview of specific things you can do to free up cash in your business.

### **2. Look ahead: Build forecasts to understand how much financing you'll need in the future**

Developing forecasts of your cash flows and financial position is probably one of the most powerful management tools for small businesses. It means that you can prepare ahead of time, rather than be surprised by a cash crunch. It also helps increase your credibility with lenders and investors, as it demonstrates foresight and that you understand your business. A few things to keep in mind when thinking about the future of your business:

- Understand the best and worst cases: Develop different scenarios to help you recognize trends and determine which way your business is heading, as well as prepare you for when things don't go so well.
- Be conservative: Expect higher than anticipated expenses and later than expected revenue inflows.
- Update your forecast regularly: Business conditions change and customers come and go, so make sure your forecasts and assumptions reflect your current reality.

#### **Some scenarios to think about:**

- What would happen to your revenues if you lost your two biggest customers?
- What would happen to your cash flow if your biggest account decided to pay a month late?
- If you think you could double sales, do you know if your suppliers fully support that? Would you have the capacity to handle a doubling in volume, or might that require additional staff expenses?

For examples of simple forecasting tools, see [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Business Tools > Visa Business Plan Guide.

## Financing and Credit Card Use

A credit card can be a source of financing as well as a way to pay. A few things to keep in mind include:

### ***Use credit cards for their interest-free grace period***

Business credit cards, such as *Visa Business* cards, can be used as a source of interest-free credit, provided the purchase balance is paid by the due date on the monthly statement. The time between the date of your purchase and the due date is the interest-free grace period, which varies by card issuer. Check your credit card terms and conditions for details. As with other forms of credit, credit cards become a problem if you spend beyond your means.

### ***Use credit cards to access lower-interest lines of credit***

Certain credit card issuers offer business lines of credit that can be accessed by credit card. Such cards can provide access to funds when needed, at interest rates as low as prime. In fact, 59% of small businesses surveyed agree or strongly agree that business credit cards offer competitive interest rates.<sup>2</sup> For more information and information about *Visa Business* cards attached to a line of credit, go to [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Get a Card.

### ***Use credit cards to build your credit history***

Card usage forms an important component of most people's credit history. Maintaining a good credit history will often make accessing financing and getting loans easier. The same principle applies to your business. Making account payments on time builds your credit rating, unlike your timely payments to suppliers, which may not be reported to the credit bureaus.

## Financing and Credit Card Acceptance

### *Accept credit cards to reduce your accounts receivable waiting time*

Carrying receivables for 30, 60 or 90 days because you are waiting for a cheque to arrive can tie up cash flow that could be used to fund other parts of your business. Accepting payments by credit card can reduce your accounts receivable payment waiting time dramatically. In a recent survey, 73% of respondents who accept credit cards strongly agree or agree that accepting cards has improved their cash flow because payment is received immediately.<sup>2</sup> Improving cash flow in this manner is often overlooked by small businesses. It's an easier way to get the money your business has earned and can reduce your need for debt financing.

## Did You Know?

- 75% of Canadian small business owners surveyed indicated that credit cards provide their business with credit and access to the credit limit they need.<sup>2</sup>



## II. Cash Flow Management: Money in, money out...



## II. Cash Flow Management: Money in, money out...

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Cash flow management is one of the single most important aspects of managing any business. In fact, every year more businesses fail for lack of cash than for lack of profits. The purpose of cash flow management is to ensure that a company maintains enough usable funds to meet its operating, ongoing financing and investment needs. At a basic level, cash flow management means:

### Maximizing Cash In-flows While Controlling Your Cash Out-flows

There are a number of approaches to achieving these goals, and in fact many managers spend much of their time attempting to manage their business' cash flow. Most advice focuses on putting in place procedures so that the business owner doesn't have to spend too much of their time managing cash flow.

However, more specifically, it is helpful to establish:

- Cash flow policies to maximize cash in-flow – to ensure payments are received on time and promptly converted to cash, and to manage whatever credit you might extend to customers.
- Cash flow policies to control cash out-flow – to manage items such as your payment cycle, take advantage of interest-free sources of credit (such as credit cards or generous supplier trade credit payment terms), and manage your inventory levels.
- Forecasting and review processes – to accurately monitor and analyze cash flows.
- Incentive systems – to ensure that cash flow management policies and processes are followed by everyone in your business as well as applying them to your clients and suppliers.

### Best Practices for Cash Flow Management

#### ***1. Get paid: Develop policies and procedures to make sure you get paid quickly***

Small businesses often struggle with cash flow because of late payments from customers. Ways to manage receivables include creating rigorous credit review processes, establishing relationships with customers to help ensure cooperation with your cash flow policy, offering discounts for early payments, reviewing credit lines annually and dropping “bad” customers for consistently late payments. Examples of policies that help you get paid quickly include encouraging your customers to pay by credit card, asking for partial payment up-front with the

remaining payment made on delivery or holding off on starting work until at least some payment has been received. Billing your customers as early as possible and clearly communicating your credit policies will also help to ensure prompt payment.<sup>5</sup> For more on this topic, see “Our Dog Ate Your Invoice” and other related articles at [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Articles > Finance.

### Did You Know?

- A recent study by Visa Canada found that as many as 80% of small businesses surveyed do not offer any incentive to customers for early payment.<sup>2</sup>

## **2. Evaluate your customers carefully when selling on credit**

Encouraging customers to pay for purchases with their credit card helps increase your business' cash flow since payment is received more quickly. However, for various reasons, some of your customers may choose not to pay with a credit card. If this is the case, payment for the purchase may be postponed by an established grace period, and your company may not receive payment right away. Because you trust these customers to pay at a later date, your company is essentially extending credit to these clients.

It is therefore very important to review each one of your customers carefully, both before you conduct business with them and on an ongoing basis, in order to make sure that they meet or exceed your company's credit policy criteria and acceptable level of risk. This minimizes the chance of your customers being unable to pay for their purchases.

An evaluation of each customer won't guarantee that your business will never experience a delayed or missed payment. What it will do, however, is provide you with the assurance that you are performing an activity that will decrease your business' exposure considerably versus doing nothing at all.

The “five Cs” of credit are considered best practice to examine a business' ability to pay. They are character, capacity, capital, conditions, and collateral. More details about the five Cs and granting credit to customers can be found in the 2007 *Visa Financial Guide* at [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Business Tools > *Visa Financial Guide*.

### **3. Act quickly to collect overdue payments**

While it is the intention of all businesses to maintain good relationships with their customers, payments do occasionally become overdue, and actionable steps are required to ensure your business receives its funds. Most businesses grant their customers a grace period of 30 days, and purchases left unpaid beyond this point are considered delinquent accounts. Collecting overdue payments is not an enjoyable experience, but having a structured process in place will help. For more information about the standard collection process, please refer to the 2007 *Visa Financial Guide* at [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Business Tools > *Visa Financial Guide*.

One alternative that can prevent overdue payments is simply encouraging your customers to pay with a credit card at the time of sale. In this scenario, the financial institution that issued the card bears the risk for the customer's failure to pay, not you or your business. More information can be found under the "Cash Flow Management and Credit Card Acceptance" section of this handbook.

#### **Did You Know?**

- As many as 40% of small businesses surveyed write-off part of their B2B sales, while 27% report that a portion of their B2B sales go into collections.<sup>2</sup>
- 69% of small businesses surveyed strongly agree or agree that accepting cards has allowed them to take on new customers without worrying about their ability to pay.<sup>2</sup>

### **4. Convert customer payments to usable funds quickly**

Once customer payments are received, many small businesses fail to convert them to usable funds in a timely manner. In other words, money available for another use in your business. A cheque payment does not help your cash flow until the funds have been made available to the business, that is, until the cheque has been deposited and cleared. Timely conversion to usable funds is important to allow prompt payment of bills and other liabilities, as well as to finance the ongoing operation or expansion of the business. To help you receive payment in the form of available funds even faster, consider allowing customers to use credit cards or e-payments to pay what they owe. Funds become available more quickly, and you will minimize your company's default risk.

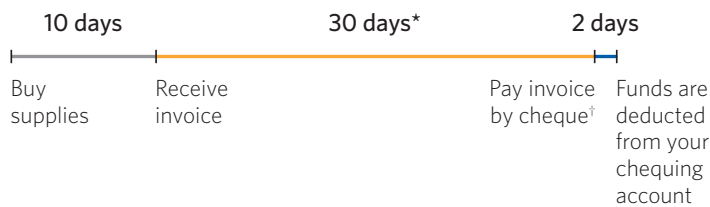
### 5. Control cash out-flows with a steady accounts payable policy

It is a good practice to develop policies for accounts payable to manage payments so that they are not made earlier than required, unless discounts for early payment make it worthwhile to do so. This allows more time for you to retain the usable funds in your business and keep them working for you. Some other good practices to keep in mind include:

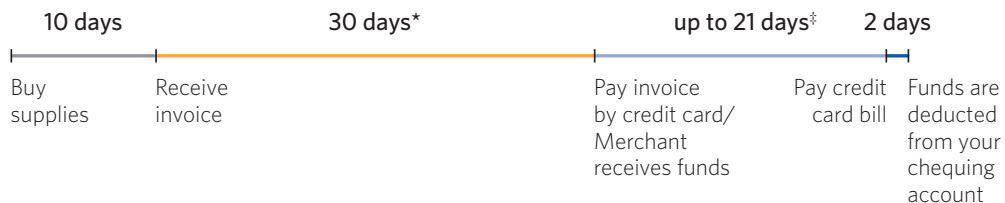
- Paying bills on time to establish a good credit rating, but not paying early unless discounts make it worthwhile to do so.
- Maintaining good credit relationships with key suppliers whom you can use as references when applying for credit terms with new suppliers.
- Where possible requesting longer payment terms from some suppliers.
- Setting up direct deposit processes for recurring payments, such as payments to employees (e.g. salary payments) or payments to utility companies.
- Ensuring that employees use business credit cards for travel, meals and miscellaneous expenses.
- Using business credit cards to pay for everyday business expenses to take advantage of the credit card “cash out” cycle and any interest-free grace period offered by the card issuer. The graphic below represents an example of this process:

#### Making payments: Cash out

Pay by cheque: Cash out after 42 days



Pay by credit card: Cash out after up to 63 days



\* Assumes a 30 day payment period.

† Assumes cheque is delivered same day.

‡ Depending on card issuer's terms and conditions for the credit card.

### **6. Don't tie up too much cash in raw materials, work-in-progress or finished goods inventory**

Cash tied up in inventories can be used for more productive investing, operating or financing projects. Inventory management, therefore, can be a key issue for small businesses. Some methods used to manage inventory include performing regular inventory audits, encouraging customers to carry buffer inventory and tying inventory levels to predicted sales levels. Many businesses regularly review their sales forecasts to determine what their inventory levels should be in order to meet the fluctuating demands of the business. Customer demand may fluctuate in patterns based on annual seasons, financial year-ends, or other factors.<sup>6</sup> While forecasting is the ideal way to minimize the amount of cash that is tied up in inventory, unexpected changes in demand for certain goods can be a fact of life for many businesses. In these situations, consider having a sales event to convert older inventory into immediate funds, or try to make an arrangement with your vendor to take back some inventory.<sup>6</sup>

### **7. Take advantage of cash flow surpluses**

At times, your business may have more than enough working capital (cash) to meet everyday expenses. However, investing that extra amount in large assets or long-term growth may not be an option since daily expenses may rise in the near future or the amount available is too small. In these situations, businesses should explore short-term investments that will generate returns without sacrificing the liquidity of these funds if they are needed. It is important to note that research and regular oversight of these investments is required.

The following is a brief overview of some of the safer and more popular short term investment options available:

<b>Investment</b>	<b>Description</b>
<b>Government of Canada Treasury Bills</b>	Treasury bills are issued by the Government of Canada and carry very low risk, but also provide low interest rates. However, they are highly liquid and can be easily sold on open markets. The minimum investment required varies, but is usually around \$5,000.
<b>Guaranteed Investment Certificates (GIC)</b>	GICs are highly secure and, unlike other investments, do not require large investment amounts. For GICs with maturities of less than five years, up to \$100,000 of the original investment and interest payments are guaranteed by the Canadian Deposit Insurance Corporation. <sup>7</sup> Individual financial institutions may also provide guarantees for GICs with maturities greater than five years. Businesses can invest in a GIC for as little as \$1,000. The investment is locked-in for the duration of the term, which can range from days to multiple years.

Investment	Description
Cashable GICs	Cashable GICs are similar to regular GICs, but allow investors to access their funds at any time after the initial 30 days of the investment. Interest, which generally will be less than a regular GIC, is earned until the investment is cashed out or the GIC's term ends.
High Interest Savings Accounts	Businesses may be able to negotiate a higher interest rate from their financial institutions due to the higher amount of cash in their savings accounts. However, the higher interest rate often drops as funds are withdrawn. Some financial institutions offer tiered interest rates for small businesses, automatically rewarding companies that place more funds into their savings account.
Money Market Funds	Money Market Funds are highly secure and highly liquid investments. The funds pool money market instruments into a single investment, which reduces the risk. The investment and accumulated interest are available within 1-2 days upon request, and there is usually no minimum investment required.
Commercial Paper	Commercial paper is a note issued by a major corporation that promises to repay the investor's original amount with interest, usually for a short period of time. However, investors bear the risk that the issuing corporation will default on this obligation.
Bankers' Acceptances	Bankers' acceptances are similar to commercial paper in that they are issued by major corporations, but their payment is guaranteed by a chartered bank. Bankers' acceptances are highly liquid, often giving investors access to their money within the same day of a request.

Talk to your business banker to find out more about these, plus other investment solutions, to determine what is right for your business.

### ***8. Develop record-keeping and reporting tools to monitor your cash flow, and automate them where possible***

A regular cash flow forecasting system can help both managers and employees foresee cash problems before a crisis stage is reached. Companies can adopt cash flow forecasting strategies to develop annual forecasts based on analysis of their business records and input from their partners. It is also important to prepare revised cash flow predictions for the near term on a monthly or semi-monthly basis to compare to the annual forecast and help identify issues before they become serious problems. Using a computer-based system often makes timely cash flow forecasting easier.

For more information on cash flow management practices, visit: [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Business Tools > Visa Financial Guide.

## Cash Flow Management and Credit Card Use

### ***Use credit cards to get access to an interest-free grace period***

Provided you pay your purchase balance in full by the due date on your monthly statement, using a credit card can give you up to a 21-day “float”, or interest-free grace period (depending on the terms of use established by your card issuer). Using a business credit card, such as a *Visa*® Business card, to make your payments and thus postpone paying out cash, can help narrow the gap between when you need to pay cash out and when you receive cash from customers. In fact, 66% of small businesses surveyed indicate that using a credit card for their business payments has improved their cash flow by providing a grace period before they have to pay their bill.<sup>2</sup>

### ***Use credit cards when you would typically use cash or cheques***

Cash flow management is about preserving your cash, so using a credit card as a payment method for your everyday business expenses allows you to hold on to that cash for longer. It also means you don't have to draw on your cash to cover out-of-pocket expenses or issue advances to employees for travel, accommodation, meals or miscellaneous expenses.

## Did You Know?

- 27% of small businesses surveyed still are able to take advantage of merchant discounts when using their business credit card.<sup>2</sup>
- 88% of small businesses surveyed choose to use credit cards because it allows them to avoid the need to carry cash.<sup>2</sup>

## Cash Flow Management and Credit Card Acceptance

### ***Accept credit cards to get faster access to your cash***

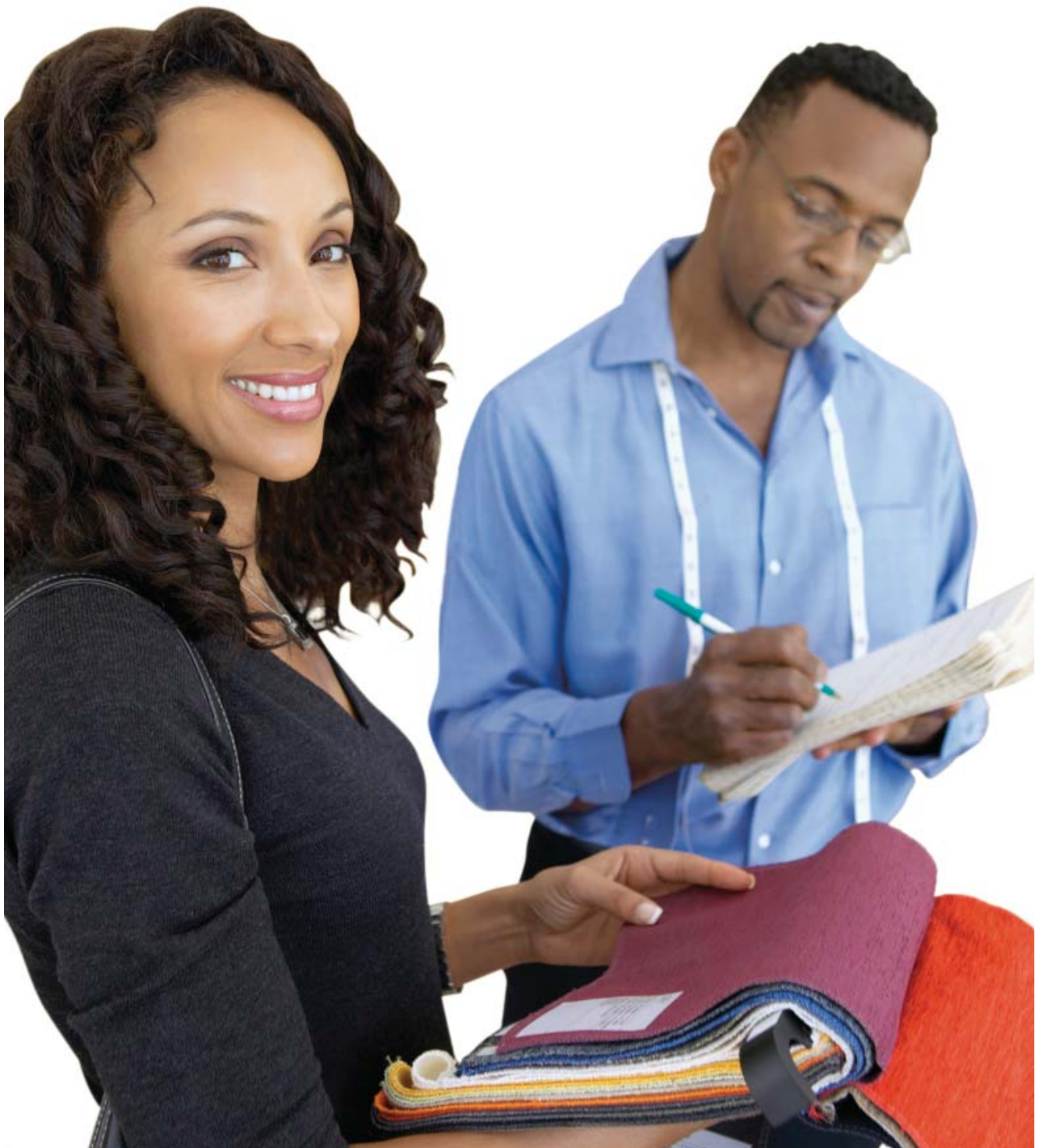
Some merchants offer net 30-day payment terms with some type of discount for early payment. Why wait 30, 60, or 90 days for a payment? When you accept credit cards as a form of payment such as *Visa* cards, your customers are still given the same payment terms, but you receive your payment almost immediately. And because you receive your payment almost immediately you may not need to offer discounts for early payment.

When your business accepts credit cards as a form of payment such as *Visa* cards, you eliminate the administration time involved with processing a cheque. Payment is made at the time of purchase and your account is credited as early as the next business day. Faster payments mean you can better manage the cash flow gap between receiving funds from customers and paying your suppliers.



### III. Procurement:

Buying things and dealing  
with suppliers



### III. Procurement: Buying things and dealing with suppliers

The basic purpose of any procurement process is to ensure that:

1. You buy the right items from the right suppliers for the right price for you,
2. Suppliers are paid the right amount at the right time, and
3. You have the right records and reporting to help you manage the business.

The entire process includes four core steps: Supplier selection, order placement, payment and settlement, and reconciliation and reporting, as illustrated below:



Effective procurement processes are usually consistent and well understood by all employees, and involve clear communication and record-keeping.

#### Best Practices for Procurement

##### **1. If possible, use a bidding process when selecting your suppliers**

For businesses with enough volume or purchases, using a bidding process to select your suppliers helps to maximize the number of options available to you and ensures a consistent and thorough evaluation process. Bidding also helps secure the most competitive offers and market rates from suppliers, and allows your business to find the best vendor to suit your needs. While price is an important factor, other criteria such as product selection, quality, fast and reliable delivery, customer and after-sales support, discounts, pricing structure, credit policy, credit card acceptance, order flexibility, ongoing maintenance costs, sharing of expertise and cooperation in product development initiatives should also be considered when selecting suppliers.

The level of resources expended on this effort depends on the level of sophistication required. For small business a basic quotation document would be required from multiple vendors. For larger businesses it may make more sense to issue a formal "Request for Proposal" (RFP) document that includes a comprehensive listing of the minimum operational requirements expected of suppliers and the additional features that your business would find beneficial, though not necessarily essential.

##### **2. Keep costs low: Exercise due diligence during the ordering process**

As simple as this practice sounds, many businesses continue to overlook this basic principle. To maintain a sustainable amount of working capital, businesses must ensure that all purchases are both *necessary* and at an *acceptable price*.

Acceptable prices are determined during the supplier selection process, while the necessity of a purchase depends on the due diligence of the business itself.

Careful inventory and supply planning and forecasting will help to reduce external spend as will enforceable procurement policies. Smaller enterprises might reserve the approval of all expenses for senior management in order to make certain that all purchases are essential and to provide transparency on company spending. An alternative is to issue credit cards to employees, enabling staff to make necessary purchases, while senior management can use the cards' control features to set limits and prevent unauthorized spending.

### ***3. Reward working together: Cooperation across your business is often essential to effective procurement***

Unless the business owner is doing it all alone (leaving little time to manage other aspects of the business), a procurement policy will fail without the necessary collaboration and support of employees. While it is important to have effective management oversight, getting employees involved and rewarding them for working together can help ensure the policy is implemented effectively. Get employees involved by helping them understand your purchasing approach, providing training where necessary, sharing relevant information across different departments and making compliance with the policy part of employees' performance plans or job descriptions. Using exception reporting to highlight non-compliant spending, clearly and consistently communicating your purchasing policy, and establishing performance metrics based on purchasing data will help ensure awareness and lead to cooperation.<sup>8</sup>

### ***4. Use purchase orders, where necessary, when buying from your suppliers***

Using standardized purchase orders allows a business to maintain consistent records of its purchases and a commitment on price by their supplier. With this information, a company can find additional cost-saving opportunities, resolve supplier disputes, simplify accounting procedures, and aggregate purchases for future supplier negotiations. But keep in mind that purchase orders are not always ideal. Creating and maintaining purchase orders can be both expensive and time-consuming, and the extra paper it generates can be difficult to manage. For items of lower purchase volume and price, businesses should consider using their business credit cards instead. This eliminates the time and costs of using purchase orders while still maintaining a record of purchases and control. If this is the case, companies should include policies regarding credit card use within their overall procurement guidelines.

### ***5. Collect data and use it: Collection and analysis of procurement data helps you continually improve***

Record-keeping and reporting are important parts of procurement. Effective tracking saves you money by making sure you pay your suppliers only what

you owe them, making sure you pay your bills on time, letting you see how well your purchasing policy is followed<sup>8</sup>, and allowing you to better understand and manage your cash out-flows. Take the time to look at how much you spend every month, what you spend it on and whom you spend it with. Analyzing your spending and categorizing it by spending category or by supplier could help you identify where you could consolidate your vendor base, negotiate for volume discounts or ask a supplier to extend you credit. This may also decrease the amount of procurement-related administration required.<sup>8</sup>

### **6. Automate what you can, but don't go overboard**

As your business grows, moving to an increasingly automated system can save you a lot of time, frustration and money. There are a number of software packages that offer cost-effective solutions covering procurement and accounts payable, as well as accounts receivable, which you can customize to varying degrees to fit the needs of your business. The benefits of computerized/automated systems include reduced payment processing time, increased transaction control and monitoring, improved reconciliation procedures and cost containment. However, don't invest in a system that is too complicated or too burdensome for your business to support. Like any system, what you get out of it depends on what data you can put into it, so don't invest in features you won't have the time to use.

### **7. Work with others: Consider partnering with other businesses or your suppliers**

Working with other businesses is a powerful way to learn about vendors and procurement practices. Leading vendors often sponsor conferences or events in various communities to exchange best practice information, identify key vendors and develop vendor relationships. You might also want to consider working with other local businesses to aggregate your purchases to qualify for volume discounts.

For more details on procurement, read "Be a Smart Buyer" and related articles at [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Articles > Managing a Business.

#### **Visa Information Source™**

Visa Information Source is a user-friendly, web-based reporting solution available through some Visa Issuing Financial Institutions for Visa Commercial cardholders who need a low-maintenance, easily accessible reporting and expense management tool. With standard and customizable reports, plus flexible capabilities to easily integrate Visa Commercial card transaction data into financial software such as Intuit QuickBooks and Quicken and Microsoft Money, Visa Information Source can simplify your company's accounting processes and help you better organize and track spending.

## Procurement and Credit Card Use

### ***Use credit cards for your business to consolidate many purchases onto one bill***

Using a credit card for payment consolidates your business purchases onto one easy-to-read bill that helps simplify record-keeping, settlement, auditing and reporting. According to a recent study, 72% of small businesses surveyed agree or strongly agree that using a credit card has improved their expense tracking and record keeping capabilities.<sup>2</sup>

### ***Use value-added services associated with some business credit cards to access electronic records and analysis tools***

For example, Visa Information Source gives you online access to all your payment and spending details, including easy downloading into popular accounting software packages.

### ***Use business credit cards to improve your supplier relationships***

When you use a business credit card, such as a Visa Business card, to pay your receivables, your suppliers receive the benefit of fast payment, within two days.

### ***Use business credit cards to build rewards***

Many business credit cards have rewards programs that allow you to earn points for every dollar spent on purchases that can be redeemed for airline travel, hotel stays, car rentals, vacation packages, and cash back.

### ***Use credit cards for their other benefits***

Using a credit card can give you access to a number of other benefits. For example, all Visa Gold and Platinum cards include collision/loss damage insurance, which provides savings whenever you rent a car (since this insurance automatically applies when you pay for the rental with your Visa card). Other benefits might include emergency assistance services, savings on purchases made at a broad range of stores, or access to special travel offers. Benefits and features will vary by type of credit card and issuing bank. For more information on the benefits associated with Visa Business cards, check out [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness).

## Do you also like the reward programs found on leading credit cards?

Well you're not alone. 65% of small businesses surveyed indicate that they derive benefit from the loyalty and reward programs offered with the credit card that they use for business expenses.<sup>2</sup>



## IV. Sales and Marketing: Driving your business forward



## IV. Sales and Marketing: Driving your business forward

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Sales and marketing efforts are among the most important aspects of any business, since they result in sales and revenues, which are the lifeblood of all business enterprises. At a high level, the sales and marketing process within a small business typically includes establishing an effective marketing strategy, developing robust and accurate sales forecasts, establishing a sales and marketing budget and finally the actual act of selling products or services.

For more on sales and marketing strategy, check out “Identifying your Sales Strategy” and other online workshops at: [www.usa.visa.com/business/business\\_resources/workshops/marketing.html](http://www.usa.visa.com/business/business_resources/workshops/marketing.html).

### Best Practices for Sales and Marketing

#### ***1. Target your sales efforts towards the “best” or “key” customers***

Most businesses find that a relatively small number of customers contribute a disproportionately large share of their sales. In fact, 20% of customers may account for as much as 80% of revenues. It is important to target these “key” customers, making sure that your sales strategy is focused on their needs, because treating them like royalty will go a long way towards retaining them.

#### ***2. Understand your customers and their needs***

Understanding your customer is as essential to making the initial sale as it is to retaining them as ongoing customers. Listening to what a customer needs, rather than trying to convince them that they want what you’re selling, is essential to developing good relationships and to understanding the needs of the market. This in turn allows you to tailor your sales strategy, your marketing messages and ultimately your products to best meet the needs of your customers, even as their needs change.

#### ***3. Understand your competitors and their approaches***

Publicly available competitor information about product features, marketing approach, supplier relationships and distribution methods is useful in understanding how you can better compete. Also, understanding the different types of customers your competitors sell to can help you identify new potential customers. Insight into your competitors and their customers can be gained through newspapers, trade journals, conferences, web sites, etc.

#### **4. Be different: Focus your effort on what makes you better**

By developing a marketing strategy geared towards all types of customers, small business owners often spread their limited resources too thin. Focusing on becoming a market leader in a specific category helps small businesses achieve increased revenues and growth. Understanding your customers' needs and what makes your offering uniquely able to serve those needs rather than just competing on price, enables you to give customers more reasons to choose you.

#### **5. Be creative: Interesting marketing can often be cheaper**

Spending money on advertising is effective only if you can ensure that the ad is viewed by your potential customers. A fair amount of money is usually required to ensure that an ad is seen enough times to be remembered and acted upon. Also, the availability of highly targeted publications that focus on your potential customer segment varies by industry.

Businesses can often use imaginative and less costly communication tools to attract customers. Examples of less costly communication strategies include:

- Preparing and distributing product/service guides and brochures
- Writing personalized letters to your existing customers containing suggestions that reflect your understanding of their individual needs
- Emailing newsletters or other useful information to customers and inviting them to forward the email to contacts in their industry who might find it of interest
- Delivering exceptional customer experiences to create loyal customers who want to refer you to their friends
- Offering discounts to customers who refer new clients to you
- Encouraging word-of-mouth advertising
- Participating in business associations and networks
- Speaking at industry events and conferences
- Using community newspapers, community bulletin boards, and direct marketing to target specific customers
- Building a website and using inexpensive online advertising to expand your audience<sup>9</sup>
- Using novel pricing techniques (such as “buy two and get the third one for free” or tiered pricing for different levels of service)
- Partnering with non-competitor businesses that target the same customers you do in a combined marketing effort

**6. Growth: Further penetrate your current market, or consider new markets**

Small businesses are often challenged for ideas to maintain or increase sales growth. Tactics for further penetrating your existing market could involve sending product/service reminders, offering discounts and providing incentives for buying in bulk. Product innovation can also lead to growth, especially when it is based on feedback from customers. This type of feedback can be obtained directly from customers or indirectly through the people who deal with your customers, such as your suppliers. While diversification and new market penetration are good growth options, they are also the most risky. To proceed in these areas, small businesses should constantly seek customer feedback and consider partnering (if possible) with other businesses to share the risk.

**7. Look ahead: Know your sales pipeline**

Build a detailed sales forecast to predict purchasing needs, revenues and profitability. A good sales forecast normally incorporates consumers' past buying patterns, your firm's current sales efforts and a prediction of consumers' future buying trends.

**8. Spend money to make money: Have a smart sales and marketing budget**

Most businesses allocate 5-10% of their revenues to their sales and marketing budget, to cover the salaries and commissions of sales and marketing staff, as well as the cost of marketing activities, such as advertising, brochures, mailings, etc.

**Sales and Marketing and Credit Card Acceptance**

**Accept credit cards to increase sales**

Expanding the selection of payment options available to your clients can help you increase sales by providing the benefits of greater flexibility and convenience. Accepting credit cards (such as Visa cards) gives your customers the opportunity to pay for goods and services quickly and efficiently instead of only being able to make the purchase if they have the cash on hand. Moreover, the 21-day grace period often offered by credit card issuers allow your customers to preserve their working capital, and the loyalty and rewards programs available mean customers can enjoy additional benefits without extra costs to your business. These advantages help strengthen existing relationships and attract new ones. In fact, in a recent study, 32% of small businesses surveyed saw an increase in sales when they accepted credit cards - with average increases topping 30% per year.<sup>2</sup>

***Accept credit cards to avoid losing out to the competition***

70% of small businesses surveyed report that they use credit cards to pay for business expenses<sup>2</sup>, up from 66% only three years ago.<sup>2</sup> If you're not accepting credit cards, you risk giving your customers a reason to shop elsewhere.

***Accept credit cards to capture the online market***

The phenomenal popularity and growth of online purchasing opens up more opportunities for your business. This not only benefits your domestic business, but can also make expanding into global markets easier. Customers appreciate the speed and convenience of credit card payment when making purchases via the Internet. Credit cards are certainly one of the main payment vehicles when it comes to conducting eCommerce transactions.

***Accept credit cards to reduce your cost of collections and write-offs***

As long as there have been business transactions, "bad cheques" and delinquent payments have been a time consuming and costly reality. 40% of small businesses surveyed report having to write-off part of their B2B sales, with the average at 1.5% of revenue.<sup>2</sup> 27% also report that a portion of their B2B sales go into collections.<sup>2</sup> Increasingly, businesses are using electronic payment solutions, such as credit cards, to ensure immediate receipt of customer payments.

With every credit card purchase, you verify your customer has the money they need to make the purchase, so costly collection processes and write-offs are virtually eliminated. 94% of small businesses surveyed accept cheques today<sup>2</sup> - that's a huge opportunity for loss. Also, for small businesses in Canada, for every \$1,000 in sales:

- \$5 is paid to collections agencies for collection services
- \$15 is written off as uncollectible.<sup>2</sup>

The average Canadian small business could save \$20 in costs for every \$1,000 in sales simply by accepting credit cards. This 2% savings alone makes it worthwhile to accept credit cards, as the savings on collections and write-offs could very well offset any fees you may pay to accept credit cards. According to a recent study, the vast majority of small businesses surveyed agree that accepting credit cards have allowed them to receive new customers without worrying about their clients' ability to pay.<sup>2</sup> When you add the potential increase in sales from accepting credit cards, the overall benefit could have a huge impact on your bottom line.



## V. Record-keeping: Taking care of business



## V. Record-keeping: Taking care of business

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Record-keeping is an essential aspect of running a business. Good records generally keep small-business owners informed of their past and present financial position, provide information to make better business decisions and help meet the legal requirements of the Canada Revenue Agency, Canada Pension Plan, Employment Insurance, etc.

### Best Practices for Record-keeping

#### **1. Use a reliable, accurate and consistent record-keeping system**

From a legal standpoint, financial records need to be accurate and provide a complete record of daily expenses and income. There are many types of record-keeping systems, but the thing to remember is that it helps to have a single simple system that you find relatively easy to use. Relying on your memory or the memories of your employees will not meet this need.

#### **2. Automated systems tend to make life easier in the long run**

As your business grows, you'll need to control larger volumes of inventories and transactions. An automated record-keeping system helps you manage your ongoing reporting requirements, and also makes it easy to transfer information to other data/IT systems should you ever want to change systems or need to share information with other authorized individuals or companies. Also, automated record-keeping is quite popular due to its relatively low cost compared to paying a bookkeeper or accountant to perform this function manually.

#### **3. Improving reporting can make tax accounting much easier**

One of the most time consuming aspects of running a small business is dealing with everything related to taxes. Businesses that have invested in streamlining and modernizing their record-keeping systems and practices can often spend more time managing and growing the business, and less time on matters related to tax administration. Some ideas include:

- Look into systems that easily convert your regular business records to what's required for taxes
- Let your staff know how taxes affect the business
- Use templates to speed things up when preparing the company's return
- Submit the company tax return electronically
- Get tax advice from experts

- Inform the appropriate agency, as required, of any relevant business changes
- Determine tax audit schedules in advance
- Plan for quarterly tax installments in your cash flow plan

**Want to learn more about taxes and small business?**  
Check out <http://www.visa.ca/smallbusiness/businessstools/>  
for the *Visa Financial Guide*.

### **Record-keeping and Credit Card Use**

Record-keeping, accounting and tax management are a few areas where credit cards can be very useful.

#### ***Use electronic credit card statements to make it easier to provide records***

Electronic statements and, where available, reporting tools for business credit cards help you to provide your accountants with online electronic statements and annual summaries rather than a box of receipts.

#### ***Use credit cards to separate personal from business expenses***

Business owners sometimes use a personal card for business expenses, which can create hassles. Not only does it make it difficult to separate and capture all business expenses, but it can make record-keeping for tax purposes more complicated. A simple solution is to have a credit card that is dedicated to your business. 75% of small businesses using business cards surveyed indicate that cards assist with the effective separation of personal and business expenses.<sup>2</sup> Business credit cards, such as *Visa Business* cards, help you keep your business expenses separate and can also offer you access to a variety of other benefits specifically tailored to help meet the needs of businesses.



## VI. Risk Management: Watching your back



## VI. Risk Management: Watching your back

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Running a business brings a host of risks, which need to be managed effectively. The basic purpose of risk management is to help make sure that the organization is protected against internal risks such as credit risks, financing risks, legal risks, reputation risks and operational risks, as well as against external risks related to the market, currency fluctuations, etc. At a rudimentary level, risk management would entail the development of policies and procedures to mitigate business and competitive risks, so that your company can survive if something goes wrong.

### **Risk Management Best Practices**

#### ***1. Write down how you want people to behave in your workplace***

Without a written code of conduct, employees would not be able to draw a clear distinction between appropriate and inappropriate behaviour and any associated risks within the business environment. Proper controls need to be in place so that employees know what to do. Items to be addressed by a code of conduct would include ethical business behaviour and the consequences of violations of the code. Other business risks can be managed by documenting policies on procurement, customer management, human resources, expense reimbursement, etc. You can find additional resources on this topic, such as “Ontario Training Requirements in Employment Practices: Human Rights and Health and Safety” at [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness) > Articles > Human Resources.

#### ***2. Implement controls to minimize employee theft or fraud***

Developing a code of conduct (risk management best practice #1) is a useful first step to help prevent internal fraud. While it is impossible to completely eliminate the risk, establishing effective internal procedural controls will help businesses minimize that exposure. One simple best practice is to separate key financial tasks. If your business has more than one employee consider appointing a different person for each of the following: bookkeeping, preparation of bank reconciliations, deposit of funds to the bank, and handling of cash. It is also advisable to separate tasks related to the creation and approval of purchase orders, receiving the goods, and matching purchase orders with invoices.

Other measures small business owners can adopt are to retain authority to sign cheques and approve expenses, regularly review employee expenses, inventory, cash-on-hand, and goods ordered and received, make bank deposits quickly and at a separate time from withdrawals, and avoid using cash for payments.

Becoming familiar with accounting principles and with the company's financial state will also minimize the chances of fraud.

To prevent internal theft, businesses should minimize the motivation and opportunity for employees to steal. This can be done by including background checks as part of the hiring process, paying reasonable wages, creating a safe and enjoyable work environment, and consulting external professionals such as auditors and lawyers regarding auditing and security policies.

### **3. Manage risks ahead of time: Know the risks you face and plan for them**

Probably the best way to be able to manage risks is to think about the potential risks your business faces before you are actually in a crisis situation. Sit down with your partners and staff and think about the risks you face in the market, from competitors, potential legal liabilities, product obsolescence, employee departures, rise in raw-materials costs, etc. Write down what you think you would need to do in those situations, and work through what you might be able to do to avoid or minimize those risks. You may find that prevention will require a policy change, a different approach or some advance preparation.

### **4. If you're trying something new, bring in an expert**

New product or service lines can involve new technologies, methodologies or regulations that could lead to you or your staff being over-extended, or even doing things in which you or they have little background or training. In such situations, it is valuable to get help from experts to avoid making costly mistakes and to speed up your own learning process. Hire experts or identify and train key internal personnel with the required expertise. Explore the Internet and local business networks for access to experts, as there's usually someone out there who has the expertise you are looking for.

#### **Did You Know?**

- 69% of small businesses surveyed strongly agree or agree that accepting cards has allowed them to take on new customers without worrying about their ability to pay.<sup>2</sup>

## Risk Management and Credit Card Use

### *Use and accept credit cards to help protect your business*

Credit cards are among the world's safest forms of payment. Using credit cards eliminates having to deal with bounced cheques. Business credit cards also help you monitor and put limits on how much employees can spend.

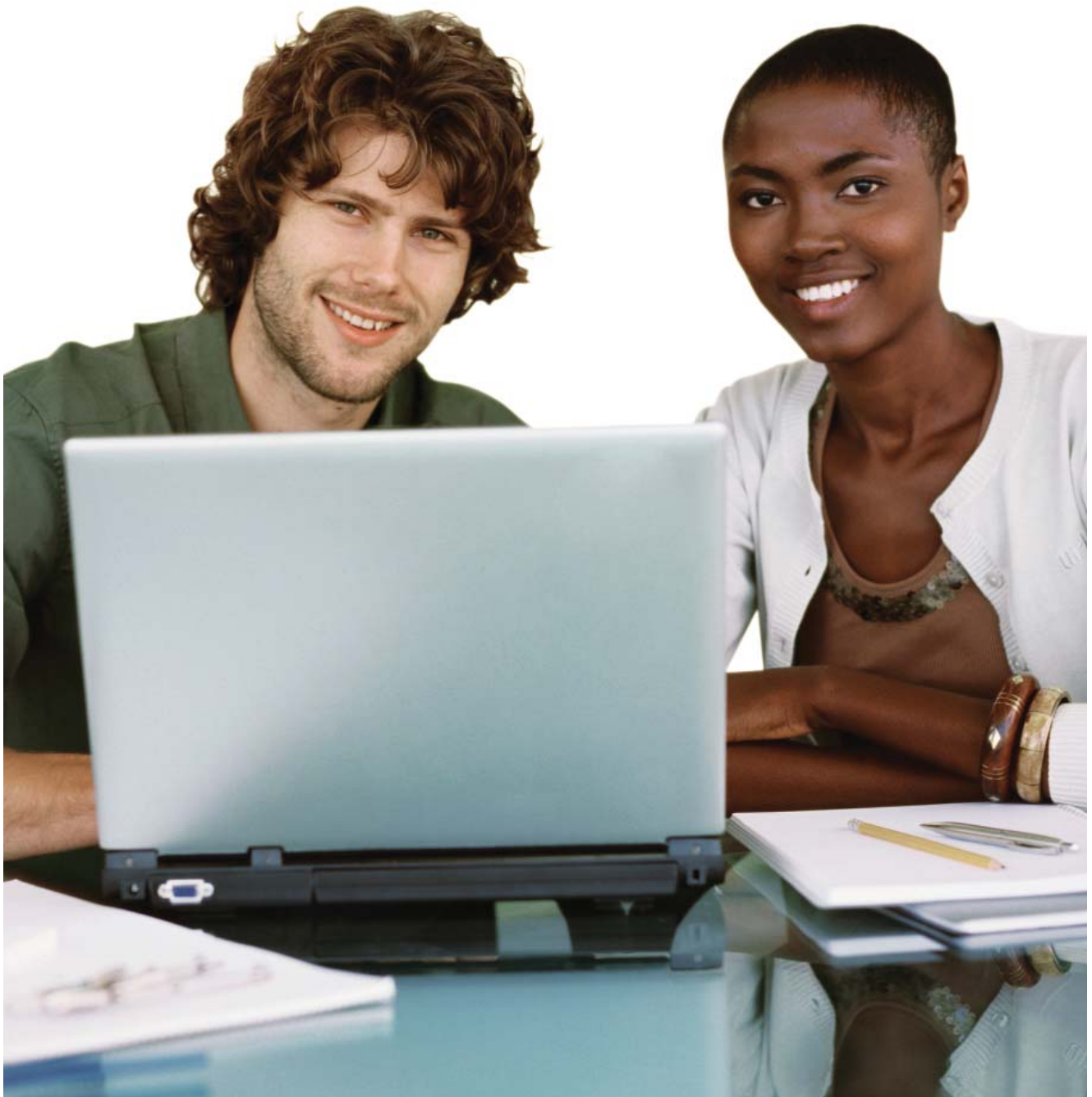
Want to learn about reducing fraud and managing risk? Check out [www.visa.ca/en/merchant/pdfs/merchant\\_fraud.pdf](http://www.visa.ca/en/merchant/pdfs/merchant_fraud.pdf) for the *Visa* Fraud Sheet on how you can help prevent fraud.

### *Use and accept credit cards to manage risks you have little control over*

Credit cards can prove useful in managing some of the external risks you have little control over. For example, making or accepting an international payment by credit card ensures that you lock in the exchange rate on the day the transaction is posted, rather than being exposed to potential fluctuations that could make it difficult to measure anticipated profit margins. Accepting cards from your customers also minimizes the credit risk to you, as the cash is in your account within two business days, reducing the possibility that you will be left with unpaid invoices should a customer be unable to pay.



## VII. eCommerce: Selling through the Internet



## VII. eCommerce: Selling through the Internet

As the World Wide Web has become an essential part of life, more companies (both large and small), are making the Internet a cornerstone of their operations. Local entrepreneurs are increasing sales by reaching a global audience at a relatively low cost, and online and computer-based tools are improving the efficiency of a business' production, ordering and delivery accuracy, and data gathering. Moreover, there are multiple methods that a company can use to sell their goods and services online, such as auction sites, email solicitation, and full transaction capabilities.

Still, even with these prospects, most small businesses have not taken advantage of the opportunities available on the Internet. Industry Canada advises that while 40% of Canadian small businesses surveyed make purchases online, only 6% actually sell their products or services using the Internet.<sup>10</sup> Online selling may not be appropriate for all businesses, but a well-planned and carefully-selected eCommerce strategy could provide significant benefits.

### Did You Know?

- In 2005, an estimated \$39.2 billion in online sales were conducted in Canada.<sup>11</sup>
- Between 2002 and 2005, eCommerce sales in Canada grew by 38% or more every year.<sup>11</sup>

### Best Practices for eCommerce

#### 1. Choose your online strategy wisely

Before anything else, small businesses must decide if being on the Internet is appropriate for them, and if so, how the channel will support the company's goals. For all its benefits, an online operation is simply a tool for business and will not guarantee success by itself. Companies should have a clear idea of its goals and determine how a web presence is aligned with those objectives. It may also be useful to see what your direct competitors are doing online.

There are many online options. Websites can be designed to educate customers, promote products, process transactions, provide after-sales support, manage customer relationships, and conduct customer research depending on a business' aims and needs.

## **2. Get the basics right before investing in the bells and whistles**

With the immense potential of the Internet, small businesses are often tempted by the latest or most popular online features. However, before your business rushes to include online sales functions on its website, it is important to have a good understanding of the types of customers the website will attract. Customers may simply seek information instead of an opportunity to purchase your products or services. Analyzing website traffic and using online surveys may also help entrepreneurs better understand their site's visitors.

If your business is unable (or simply not interested) in serving clients from around the world, it is best to target your website to local customers in your surrounding market. Adapt messages and features on your website to suit local needs and consider participating in regional directories and web communities. These qualities should be reflected in the websites of small businesses that consider quick and personal service to be one of their strengths. Useful and convenient information, quick responses to questions sent from your website, and even live online customer service can help a small business achieve this.

## **3. Maintain a manageable size**

Most experts agree that online initiatives that take more than one or two years to implement are rarely successful. Moreover, with customer tastes, competitors, and the economy changing so rapidly, projects that take longer than a year may no longer be useful by the time they are finished. It is best for small businesses to set up Internet initiatives one at a time, making sure everything works properly before moving on to the next one.

Companies should create a schedule and budget to guide their online projects as well. Like other major undertakings, designing a website can easily take more time and money than expected, and using a schedule and budget will help ensure your project stays on track. Prioritizing your initiative's objectives and features will also help you determine what to eliminate if the time or costs required become unmanageable. Consider hiring professionals to make sure your business achieves its desired results efficiently and effectively. Furthermore, make certain you have the internal processes to support your online initiatives.

## **4. Remember the key rule: Focus on your customers**

Customers are the lifeblood of any business, and your company's Internet presence should create a simple and pleasant experience for your clients. To do this, include an overview of your business to build trust with your website's visitors. Make sure the site has adequate security measures and a privacy policy,

and communicate these to establish the business' credibility. Allowing customers to contact your business is also important, and your website should include contact information such as your phone number and mailing address. Online feedback forms are another way for customers to reach your business, but make sure your business responds promptly to ensure satisfaction.

Additional customer convenience can be delivered with features such as frequently asked questions (FAQ) pages, downloadable brochures, forms, and manuals, online ordering, order tracking, site search engines, and multilingual versions of your webpage. All businesses should also track their websites' activity to analyze customer habits. This allows a company to measure the success of its Internet initiatives and identify further opportunities.

#### ***5. Keep watch over your property: Protect your information systems***

With your business' reputation and potentially sensitive customer information at stake, the security of your information systems is vital. Make sure the responsibility of online security is clearly designated to a specific person to ensure accountability and oversight. It is important not only to use up-to-date anti-virus software to protect your system, but to download and apply all operating system updates immediately, make sure your firewall is always turned on, and use updated anti-spyware technology. Outdated software will leave your information systems exposed to potential dangers.

Frequently backup all files and regularly change your system's passwords. Passwords themselves should also be difficult to guess. Larger businesses may consider hiring IT security professionals to test their information systems security and recommend necessary improvements. Inadequate security testing of online systems and networks and poor monitoring of Internet activity are among the most common reasons for security breaches.

#### ***6. Security breaches: What to do when the worst happens***

As security breaches can occur 24 hours a day, small businesses should have a plan ready for any situation and responses must be fast. If your business' online systems are attacked, it is important to first protect your system from further damage, and then determine what happened. Immediately disconnect your system and contact all relevant individuals, including company management and your Internet service provider, to help trace the attack, and if necessary, the police. Once your system is safe, determine the amount of damage experienced by reviewing your system's security records and backing up all data for later analysis.

## eCommerce and Credit Card Use

### ***Accept credit cards for your online transactions***

When selling online, the ability to collect payment for goods sold is more challenging than selling from a conventional store-front. You have to contend with customers you may not know and who may live far from your place of business. Before you ship your products to online customers, it makes good business sense to have the payment already in-hand, or at least guaranteed. Accepting an electronic payment solution, such as credit cards, provides your online customers with the option to pay quickly, conveniently and securely while giving you the peace of mind that payment has been received. For businesses that offer online shopping, accepting credit cards has become a crucial element to their success.

### ***Use the additional security measures when accepting cards online***

The fact remains that fraud happens on the Internet. To protect your business, *Visa* credit cards offer a number of tools to help merchants assess and mitigate fraud risk with eCommerce /online transactions. Address Verification Service (AVS) and the three-digit code located on the back of *Visa* credit cards are services that can help make your online environment more secure. It is always wise to ask your customers to provide you with the three-digit code located on the back of their credit cards. This helps verify that the customer has a legitimate card in hand at the time of purchase. You can find this three-digit code at the end of the signature panel at the back of a credit card, or in a separate white box beside the signature panel.

Moreover, credit card services such as “*Verified by Visa*” are offered on most *Visa* credit cards to help to protect merchants by asking customers for a unique PIN. This innovative service verifies cardholder identity in real-time so that you as a merchant can accept *Visa* cards with peace of mind and your customers can shop more confidently knowing that their identity is protected.

For information regarding the many *Visa* services and programs that help to secure the online environment, please visit : <http://www.visa.ca/en/merchant/fraudprevention/>

## Did You Know?

- 72% of small businesses surveyed either strongly agree or agree that credit cards are required for the Internet, phone, or mail orders that they make.<sup>2</sup>



## VIII. Importing and Exporting: The world is your marketplace



## VIII. Importing and Exporting: The world is your marketplace

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The world is becoming increasingly global, and Canadian small businesses are not sitting idly by. According to Statistics Canada, over 85% of Canadian exporters were small businesses in 2004. Small businesses accounted for 43% of the value in Canada's exports that year, with each company having an average export value of \$4.19 million.<sup>12</sup> Clearly, Canadian small businesses are taking their products around the world. Still, seeking customers in global markets has risks. Taking part in international business can be complex, and many factors must be considered.

### Best Practices for Importing and Exporting

#### 1. *Be patient and start small*

While global markets present small businesses with large opportunities, establishing profitable operations in another country is often difficult. Companies must make sure their goods and services suit customer needs in the targeted country, and adjusting existing products to foreign tastes can take time.

During this period, companies must spend a lot of energy coordinating their efforts between countries and learning all the details that are required to operate an export business. Small businesses must also meet their cash flow requirements in the meantime. Starting with smaller operations and carefully refining your processes before moving on will ensure your business grows at a manageable pace.

#### 2. *Understand foreign taxes, laws, and tariffs*

Operating in a different country will naturally attract the application of different taxes and laws. Certain goods and services traveling between certain countries may also have tariffs applied to them. Small businesses wishing to take part in the global marketplace must be aware of these regulations and their effects. A tax strategy should be developed that considers implications on both your domestic business and your foreign operations. Your business structure and distribution method in foreign countries may change based on these issues.

Legal factors within countries and between countries need to be considered as well. Product standards and restrictions vary from nation to nation, and export restrictions or trade disputes between countries will also influence a cross-border company's operations. Tariffs and duties are applied to different goods in different

markets, and can even apply to specific components with which a product is made. Tariffs are commonly established based on the product classification and country of origin.

### ***3. Have a plan: Know how you are going to get paid***

There are four basic ways that invoices can be paid if your customer is based in a foreign country. Each payment method has its own benefits and risks, and you should consider the effects on both your cash flow and risk management. The payment methods are briefly described below:

<b>Payment Method</b>	<b>Description</b>
<b>Advance Payment</b>	Invoices are paid in cash prior to delivery of the product. Few customers are willing to use this method, but some may pay a part of the amount as a deposit.
<b>Open Account</b>	Similar to how invoices with payment terms are applied for domestic customers, goods are first delivered and payment is due after an established period. With this method, merchants bear the risk that foreign customers will be unable to pay or that their cheques will bounce. Accepting credit cards will help lower that risk.
<b>Letters of Credit</b>	A document issued by the foreign customer's bank that guarantees payment of the amount owed to the merchant if all agreed terms of trade are satisfied. Merchants can also have a bank in their own country "confirm" the letter of credit, ensuring payment even if the foreign customer's bank is unable to pay. Letters of credit are very secure, but often inconvenient and somewhat costly. Costs are typically borne by the company that is requesting the letter of credit. This can be either the merchant or the buyer.
<b>Documentary Collection</b>	Goods are shipped to the foreign customer's bank, which holds the items until payment or written assurances of payment at a later date are received from the customer. Once the payment is received, the merchant instructs the bank to release the goods. Payment from the customer is not guaranteed and merchants still bear a risk.

### ***4. Understand the basics of foreign exchange***

Operating in other countries means that you will be affected by changes in the exchange rate, or exchange rate risk. For example, consider a Canadian company that has just sold its products with 30-day terms to a foreign customer in that customer's currency. If the exchange rate changes significantly within the 30-day period, the revenue received by the Canadian merchant will be very different than what the Canadian merchant would have received if the customer paid immediately or was invoiced in Canadian funds.

Although the customer pays the same amount of foreign currency, the Canadian merchant receives a different amount of Canadian dollars when the payment is converted at the bank because of the change in exchange rate. This can have a large, positive or negative, effect on your cash flow.

### Importing, Exporting, and Credit Card Use

#### ***Use and accept credit cards for immediate access to world markets***

Credit cards are an ideal tool for import/export businesses. The worldwide acceptance of credit cards gives customers a convenient way to instantly access merchants around the globe, while merchants can serve foreign customers with the same technology they use for their domestic operations. No additional time or costs are required, and both customers and merchants are able to make a transaction from day one.

#### ***Use and accept credit cards for peace of mind***

Credit cards provide peace of mind by reducing exchange rate risk. Since exchange rates on credit card transactions are applied at the time the transaction is processed, customers and merchants are not as affected by longer term shifts in the exchange rate, offering more stability when managing your business.

### Did You Know?

- In a recent study, 36% of small businesses surveyed said accepting credit cards has allowed them to sell to foreign customers.<sup>2</sup>

1 2007 Visa Financial Guide

2 2007 Visa Canada Association Research: "How Small Business Buys and Sells"

3 Business Development Bank of Canada: "Techniques for Better Cash Flow Management" ([www.bdc.ca](http://www.bdc.ca))

4 Business Development Bank of Canada: "Increase your Chances of Getting Refinancing" ([www.bdc.ca](http://www.bdc.ca))

5 Business Development Bank of Canada: "Effectively Managing Working Capital" ([www.bdc.ca](http://www.bdc.ca))

6 Business Development Bank of Canada: "Inventory Management Strategies for Cost Reduction" ([www.bdc.ca](http://www.bdc.ca))

7 Canada Deposit Insurance Corporation ([www.cdic.ca](http://www.cdic.ca))

8 2002 Visa Canada Association Research: "Procure-to-Pay Best Practice Guide"

9 Business Development Bank of Canada: "Low-cost Marketing Know-how" ([www.bdc.ca](http://www.bdc.ca))

10 Industry Canada: Key Small Business Statistics (January 2007)

11 Statistics Canada: "Electronic Commerce and Technology - 2005" ([www.statcan.ca](http://www.statcan.ca))

12 Statistics Canada: A Profile of Canadian Exporters ([www.statcan.ca](http://www.statcan.ca))

Hopefully the practices and ideas described in this Handbook can help you and your business grow and be successful. For further information, check out the resources suggested below:

#### Some Useful Links and Resources

- [www.visa.ca](http://www.visa.ca)
- [www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness)
- <http://www.visa.ca/smallbusiness/businesstools/>
- <http://www.visa.ca/en/merchant/bestpractices/>  
(“How to Reduce Chargebacks”, “VISA Tips for Hotels” and “VISA Tips for Car Rental Agencies”)

[www.visa.ca/smallbusiness](http://www.visa.ca/smallbusiness)



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