Smart

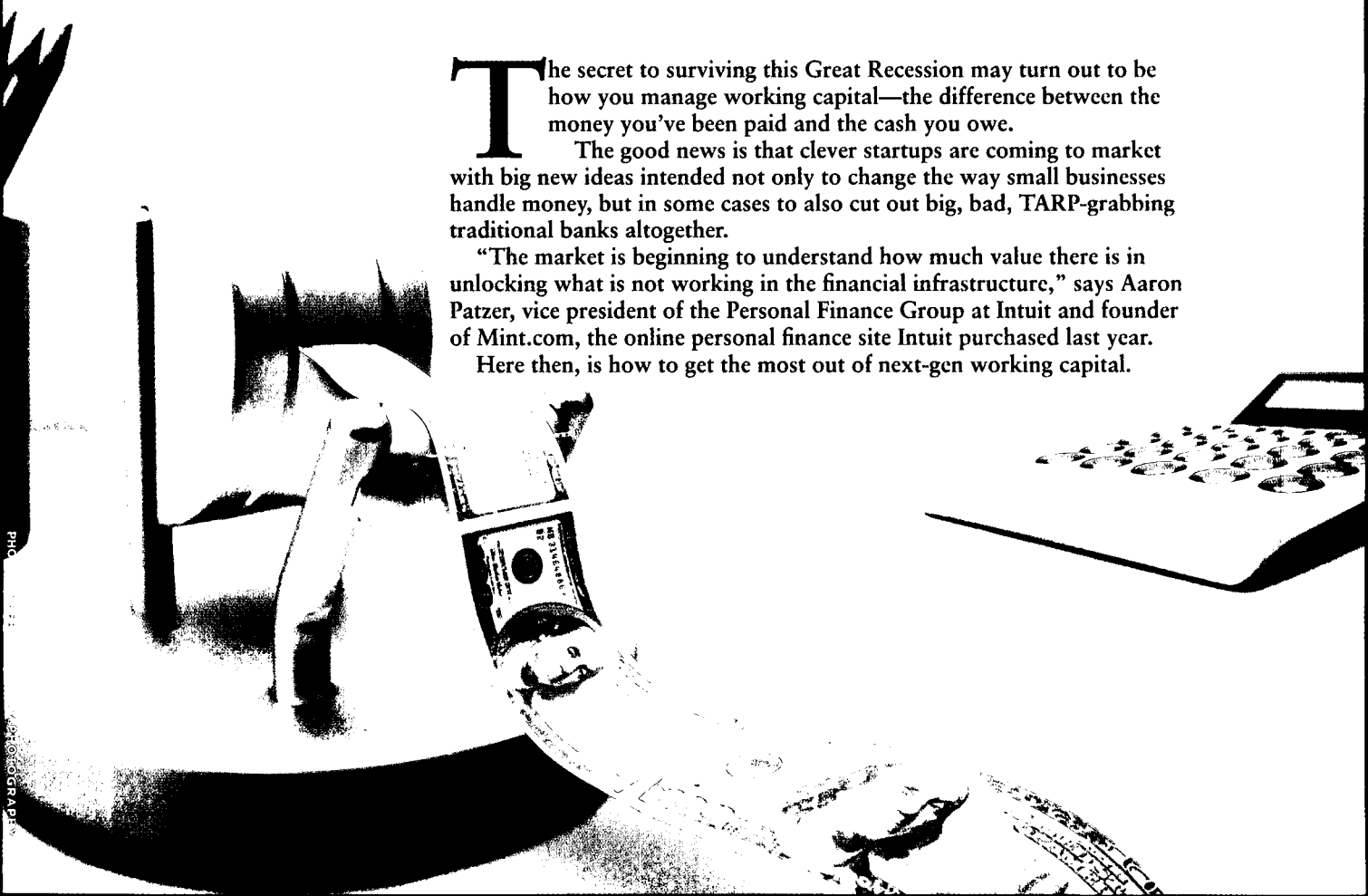
To get through these days of tight credit, businesses need speedier receivables, extended payables and financing alternatives that were once unimaginable. Here are some of the options.

The secret to surviving this Great Recession may turn out to be how you manage working capital—the difference between the money you've been paid and the cash you owe.

The good news is that clever startups are coming to market with big new ideas intended not only to change the way small businesses handle money, but in some cases to also cut out big, bad, TARP-grabbing traditional banks altogether.

"The market is beginning to understand how much value there is in unlocking what is not working in the financial infrastructure," says Aaron Patzer, vice president of the Personal Finance Group at Intuit and founder of Mint.com, the online personal finance site Intuit purchased last year.

Here then, is how to get the most out of next-gen working capital.



1 PUT FUTURE SALES TO WORK

The old-school small-business dynamic of paying a bill by the agreed-upon due date or face usurious late fees is disappearing. BillFloat, based in San Francisco, is launching micro-credit for small business. Using investment and tech backing from online giant PayPal, BillFloat will provide as much as $1,000 of unsecured credit for 30 days to pay any bill.

BillFloat charges a flat rate for each micro loan. Fees during the current beta period, for example, are $4.99 per bill for a $50 loan and as much as $14.06 to pay a $225 bill. This fee combines a 3 percent monthly interest rate and a flat service charge per bill. Lendees have 30 days to repay and can extend terms as long as they notify BillFloat. Interest continues to accrue while the balance is outstanding.

Traditional banks also are morphing into financing innovators. Capital Access Network has created a product called AdvanceMe that provides working capital based on a company's estimated future credit card transactions. The outfit also reviews other factors—including whether a company has a minimum monthly credit volume of $5,000—before agreeing to provide a lump sum. The Scarsdale, N.Y., company says the approach lets firms with lower credit scores qualify for loans.

Clearly, new financing options like these will strain some small businesses. For example, as low-cost as BillFloat might be compared with charges for bounced checks, 3 percent per month works out to a near-*Sopranos* level of 36 percent annually. And financing tools like those offered from Capital Asset Network require sophisticated accounting because, technically, the cash is not a loan, but a form of accelerated sale. Companies will need to think through options to be sure these deals make business sense.

2 GET YOUR MONEY FASTER

Considering all the innovation in digital technology and the web, small-business billing is still almost ludicrously old-fashioned snail-mail paper bills and paper checks or fast but pricey web-based billing and payment services. Now third parties are offering new ways to expedite inbound cash.

Invoicera, based in New Delhi, provides services like international billing, multiple payment gateway support, fiscal team management and automatic billing. Basic tools are free, and $10 a month buys access for as many as 25 users and more features. The system requires at least a working knowledge of accounting to use properly.

Bill.com in Palo Alto, Calif., offers a near-enterprise-grade billing and invoicing tool that extends to managing payroll and billing options via the web. "Small-business owners are beginning to demand the kind of controls they have in their personal banking tools from the business tools," says Jeff Schultz, Bill.com's vice president of marketing.

Traditional financial service firms are not far behind. Charge card giant American Express is betting on a new payment service that ties web payment options, financing and other services to small-business invoices.

The rub with all these is cost. American Express charges to manage receivables. Fees are complex and vary by amount and product used, but entry-level accounts cost 2.89 percent of each bill, plus 15 cents per transaction. Bill.com's service starts at $20 per month, plus 99 cents per check and 49 cents per electronic transaction. So firms must be careful not to get buried by these costs.

3 LOSE THE PAYROLL, THE PAPER AND EVEN THE BRANCH

BankSimple is angling to offer all the services of a bank without the actual building. The Brooklyn, N.Y., firm is establishing a web-based financial system that will offer free ATMs, automated money management, smartphone bank deposits and free online bill payment with what the firm claims are no hidden fees and far lower costs than traditional banks.

New banking hybrids are springing up fast. Austin, Texas-based MPOWER Ventures, through its prepaid debit card brand Mango Financial, recently opened its first "Mango Store" in Austin. A lower-cost alternative to high-priced check cashing, Mango's new retail location provides prepaid MasterCards, mobile money transfers and free alternatives to many financial transactions. The service gives small businesses not only new payroll options, but also lets their employees cash checks less expensively. Mango will offer payment options for small businesses looking to pay employees in cash. It hopes to open stores across the country on a march to become the Starbucks of next-gen banking.

PayNearMe is looking to do away not only with paper checks, but paper money, too. The Mountain View, Calif., company has pioneered the use of bar-coded vouchers, which any desktop imaging device can produce and which can be used to pay for anything from goods at 7-Eleven stores to rental cars from firms like Avis.

There are risks for these services. Fees are higher for working through third-party ATMs, and the tax implications are significant. The IRS likes to know where your money is.

4 SMARTER POINT-OF-SALE

For sheer innovation, it's tough to beat the changes coming at the point-of-sale. One of the most cutting-edge is Palo Alto-based Bling Nation, which is trying to deploy a system that lets small firms create on-the-fly loyalty programs. The cash-back and points system works through BlingTag, a fob that attaches to the back of any mobile device—no cash or credit card needed. The BlingTag lets merchants track purchases, reward customers and offer discounts almost automatically.

Firms like Plastic Jungle, meanwhile, are in the $30 billion market of uncashed gift cards. The San Jose, Calif., firm buys the remaining balances on unused or unwanted gift cards both from users and businesses, then resells this purchasing power to buyers using its Gift Card Exchange. Spreads range from 30 percent to 92 percent of face value, depending on the retailer and value of the gift card. "If you have gift cards on your books, this is a new way to get working capital," says Bruce Bower, CEO of Plastic Jungle.

Again, there are drawbacks. Bling Nation must work with existing credit card vendors, which can be challenging. And gift cards face steep competition from prepaid debit cards that replicate the gift card experience but can work with any retailer.

"All this activity does bring excitement to the market," says Patzer of Intuit, in Mountain View, Calif. "But getting from a good idea to a good business takes awhile." E

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