Auxiliary Business Plan Outline

This is an outline of the major business processes that need to be addressed to have a sound business plan in place for an auxiliary. Having proper business processes will help the auxiliary improve cash flow, build the resources to grow the business, and control risk.

I. Mission & Vision
The auxiliary needs a mission and vision for what it exists to accomplish. This will encompass short-term and long-term goals. It will also have scientific and business aspects; the business aspects exist to facilitate the scientific mission. The mission and vision for the auxiliary must further the mission of the University, which is instruction, research, public service and patient care.

II. Cost Study
A. A good cost study can answer these key questions:
   • Will the prices cover our cost?
   • Will the prices enable us to achieve our mission?
   • Is this a service we can perform efficiently compared to the market?
   • Can we build operating reserves?
   • Will we be able to finance future capital needs?

B. A suggested cost study method is available at:
   http://administration.ucdenver.edu/admin/policies/fiscal/CostStudyTemplate.xls
   This template is part of the Internal Service Center policy, to which auxiliaries serving mainly external customers are not subject, but the cost study method is essentially the same. The difference is that auxiliaries servicing external customers are not limited to charging cost, but they still need to know what their full, long-term costs are so they can plan their prices to reach their business goals.

C. A cost study should be performed annually.

III. Revenue Cycle
Bad revenue cycle practices can drag the business of the auxiliary down creating problems with
   • cash flow
   • bad debts
   • long-term viability
To avoid this, the business plan must include the following:

A. Business Review of New Orders
   Accepting an order is granting of credit, therefore to temper credit risk all new orders should go thru a business review of payment terms as follows before the auxiliary begins work.
   1. If payment is to be by credit card, route credit card data to the appropriate administrative staff for immediate payment processing.
   2. See “Credit Card Customers” below.
   3. If the customer is to be billed, evaluate the credit worthiness of the customer:
      a. New customers: gather credit data, as described in “Account Receivable Customers” below.
      b. Review the customer’s account status. Further credit should not be granted to a past-due customer.

B. Credit Card Customers
   If payment for services rendered is to be received by credit card, key business practices to minimize risk and maximize cash flow are:
   1. Process payment immediately.
   2. Secure credit card data, whether on paper or electronic.
   3. Segregate duties:
a. One person should process payment.
b. Another person should reconcile receipts monthly in the general ledger.
c. Auxiliary personnel should not have access to credit card data.
4. For full details to consider, see the Credit Card Policy and the credit card checklist at: 
   http://administration.ucdenver.edu/admin/policies/fiscal/Credit_Cards_080108.pdf  

C. Accounts Receivable Customers
If the customer is to be invoiced, before rendering any services, key business practices to minimize risk 
and maximize cash flow are:
1. Obtain credit information.
2. Set payment terms.
3. Bill immediately upon rendering of services. Usually billing should happen weekly.
4. Record billings as accounts receivable in the general ledger no less than monthly. This is important 
to show the true financial status of the auxiliary: the auxiliary is expecting payment from customers 
for services rendered.
5. Deposit receipts daily (against accounts receivable).
6. Follow up on past-due accounts immediately including phone calls and delinquency letters. Log all 
collection efforts. Include warnings of impending submission to a collection agency, interest, and 
collection costs.
7. When the account is 60 days past due, submit it to Colorado Central Collections.
8. See Accounts Receivable Policy at: 
   http://administration.ucdenver.edu/admin/policies/fiscal/AcctsRec_080108.pdf

IV. Management Monitoring
A. Once a month, management should review the auxiliary’s balance sheet and income statement to monitor 
financial activity. Watch for and investigate causes for:
   1. Deteriorating cash position.
   2. Disproportionately growing receivables.
   3. Revenue not materializing as expected.
   4. Expenses out of line with cost study.
B. Review accounts receivable aging.

V. Reserves
If all goes well, the auxiliary should eventually be able to start setting money aside in the plant fund for future 
capital equipment purchases.