



Keeping Your Business Healthy - *Identify and fix operational difficulties*

It's a bit of a chicken and egg question to a lot of people; what comes first, the financial difficulty or the operational one? And let's face it when most businesses find themselves in financial difficulty they tend to look for more cash rather than focus on what might have caused the problem in the first place.

Practically every aspect of a business's operations has an impact on its financial performance, even down to the way you provide the staff tea and coffee. And if a seemingly insignificant cog in the wheel of a day at the office can cause a hiccup, just think what else might be going on.

A simple sum

If cash is short there is only one reason for it; you're paying out more than you're getting in. The difficult task facing business owners is identifying the cause of the cash shortage.

The obvious place to start is with sales and there are several elements that should be addressed. For instance, was your pricing correct in the first place in respect of the margins you projected? Remember, regardless of whether the price sounds right in terms of the market and the competition, it's the total cost of fulfilling the order that determines whether you make money.



Keeping a constant check on suppliers is key to making sure your margins remain positive. Are you still getting the best deal? Are there any quality issues? Do they deliver on time? These are all issues that make a real difference between profit and loss.

Bill quickly and collect on time

A sale is not a sale until it's paid for, and it certainly won't be paid for until an invoice is raised. Delays in raising invoices result in subsequent delays in getting paid so it is crucial to get them done and out to customers in a timely manner. It is also worth remembering that the due date is not a start date for payment negotiations.

The make-up and spread of the customer base also needs monitoring. Checking the creditworthiness of customers before you sell to them removes the chances of a collection



headache further down the line. A close eye should also be kept on the concentration in the sales ledger. It's not difficult to imagine the difficulties you could face if a customer who you relied on for 30% of your business is suddenly a customer no more.

A final point on sales concerns the sales and marketing team itself. As long as they are finding new customers to grow the business or even just filling the holes left by the drop offs then they are fulfilling their role. If not then you might need to shake a stick at them.

Figures (and facts)

If the sales team drives a business then the bean counters are the ones that need to steer the business and keep it on course. In this respect a business owner has to be confident in the numbers prepared and ask questions if reality drifts a long way from the promised outcome. Poorly prepared accounts are a self-perpetuating problem in that not only will you be in the dark about potential issues but your bank is unlikely to extend facilities if they can spot gaping holes in them. So, cautious forecasts need to be compared with actuals on a regular basis and any glaring deficiencies investigated thoroughly.

Of course issues with accounts are not always down to the people preparing them. If the accounting system in place is no longer capable of dealing with the complexities of your business then it's probably not worth logging into it in the first place.

All in it together

Having robust communications within a business might sound a bit like consultant speak but it is important to engender an open-door culture and encourage feedback if you are to latch on to any whispers that could help you avoid future financial problems. After all, a problem in one department is a problem for the whole company, so clear reporting lines for both staff and management need to be set out.



Remember, all of the things discussed here can *cause* financial problems but they start off as operational problems. However, once they are recognised as such they can be flagged and dealt with accordingly.

For reliable, positive and impartial advice about your business challenges, contact Mike Grieshaber.