

## What the Numbers Say

01/02/06

What should I be doing with my finances, to get better control of the business? This question has come up in several forms, over the past month, as the business owners I talk with are analyzing their results at year end. They are looking for advice on how to make 2006 even better than 2005. Let's start by looking at what the numbers can tell you about the business. We'll talk about how to predict and plan for the future. And then we can talk about how to stay on track during the coming year.

Most business owners run their business on what I call the cash flow method of accounting. When cash flows in, things are good. When cash flows out faster than it flows in, things aren't so good. Today is consumed with collecting for work done yesterday, and the plan for tomorrow consists of how to solve problems left over from today. You may be looking back on this past year, wondering how you got to here. You have gotten through the year, doing the best you can, coping with problems and opportunities as they come up. Next year? Well, we'll just have to see how things turn out along the way. To get your business to the next level, you need more than that. You need to understand what the numbers are telling you about the business.

What I hear from business owners is, I want more control over the business. I want it to run

smoother, with more control, more profit. The first step in managing your finances is automation through your accounting system. As I've said repeatedly, Quick Books is a great accounting package, if you don't already have something in place. In today's competitive marketplace, you need accounting information at your fingertips, all day long.

Regardless of the accounting system you use, ask yourself if you trust the numbers. If your balances aren't right – think about re-setting up your books. Entering good numbers after bad ones only adds to confusion and wastes effort, as you try to decipher what's going on. You may find it is quicker, easier and cheaper to get some help to set up a clean set of books, so that you can go forward with confidence.

Once you have a set of books you can trust, you need to find a balance between trying to understand the past, manage the present, and prepare for the future. In reality, running the business is all about the future. The past can tell you what the business is capable of doing, up to this point in time. From the past, you can learn about profitability – as in where you are profitable, and where you can make changes to become more profitable.

Most companies' accounting systems are set up to deliver tax accounting, which is all about the past – what did you bring in for income, what can you write off, how much did you make, and how much do you owe in taxes. Nice information, at a specific point in time, but not that useful for running a business on a go-forward basis. You need to shift to what I call managerial accounting – information you can use to plan, operate, and improve the business.

One statement I hear a lot from business owners is, "no one can predict the future". While that is true, it is also true that without a clear picture of where you want to go, it is hard to know if you are on track. A forecast of income, and budget of expenses are two invaluable tools you can use to gain better control of the business by laying out your vision of an optimum future.

You can start to plan your future by analyzing past results. Take a look at this year's customer ordering. Find out who are your most and least profitable customers – often it is not the big volume buyer who gives you the most profit. Look for customers with potential to grow, and those that are falling by the wayside. In the natural order of things, customers go through cycles of growth, plateau and decline. Look for the patterns among your customers. Make notes on what you expect each customer, or

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customer group, to produce in revenue, for the coming year.

On the expense side, identify when you under-spend, or overspend, and where you get it just right. Review your P&L, and remember, if your plan is to grow the business, as income and volume increase, so will expenditures. You may find that there is a point at which it would be more cost effective to add permanent staff to replace overtime. Decide which vendors you need to evaluate, or re-negotiate with during the year. Figure out which services you currently buy on the outside, which you would be able to handle more cost effectively by bringing them in-house, or vice versa. Make notes on what you plan to spend in each area, for the coming year.

Load your income and expense notes into your accounting system – which should have a section for budgeting. Put together your plan for income and expenses. Check to see if you will make enough profit to make the coming year worthwhile. If not, re-work your plan, until you are satisfied with the results.

Finally, set up a routine to monitor results weekly or monthly, depending on how much control you think you need to impose. If you are concerned that you won't hit your targets, monitor more frequently. Most businesses do well with weekly monitoring –

if things are on track, keeping going; if things are not on track, you catch it quickly and make changes. You can use excel to graph results, so that you can see the trends. Compare results year-to-year, to see if a drop or spike is typical for that period, or something you need to jump on. The key to controlling the business is to lay out a plan, regularly inspect results, expect compliance to your plan, and demand that changes take place, if necessary, to get, and keep your plan on track.

Looking for a good book? Try *Budgeting Basics and Beyond, A Complete Financial Guide for Non-Financial Managers*, by Jae Shim and Joel Siegel.

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