

## Keeping Your Business on Track

12/04/06

I'm staying up nights, worrying about whether things are okay, and questioning whether or not I'm on top of everything. I'm good at staying on top of the day-to-day stuff, but I need help with the bigger picture. Sometimes, it seems, I lose sight of what's most important, or I don't catch things fast enough, or I can't see what's really going on, until after the damage is done. For example, recently, I found out that while I thought we were doing a great job with income, actually, our primary service line was declining, and we'd dropped volume with two of our big customers. I need help figuring out what to track, what to look at, to be sure my business is doing okay.

This business owner has a \$1+ million technology located in Connecticut. They have a great combination of both product and service, backed up proprietary technology. The combination earns them highly profitable margins. They operate in a niche market, with limited competitors, and opportunities to expand globally. They sky's the limit, right? Not exactly.

Staying on top of the business, even when things are going great, is job #1 for a business owner. As the business expands, it gets harder for the owner to touch everything. It is no longer possible to know first hand if everything is going the way it should. That's why, as the

business expands, owners have to build tracking and control systems, to inform them, and help them spot faults and opportunities, without being directly involved.

Today we're going to consider three elements of tracking. What to track, how often to track, how to know if you're on track, and how to focus on the outcomes that come as a result of being on track.

There are standard items to track in every business. Income, accounts receivable outstanding, accounts payables outstanding, debt outstanding, capital expenses, cash on hand, gross profit, overhead expenses, net income and net profit, these are some of the basics.

Then there are ratios that you want to monitor. If you're not at the target for one or more of the ratios, don't despair. Many businesses are not, especially after going through a growth or investment spurt, or a downturn. Just pay attention, and go to work on getting the ratios in line, before you take on more risks.

Dividing overhead expenses by gross profit tells you how much money you need to bring in for the period, to break even. Set a goal to operate above break even, so that you can have money left over to put in the bank.

Calculating the percentage of marketing and sales expenses to revenue and gross profit, helps you to know if you're spending enough to grow the business. Interestingly, this ratio operates inversely to income. If income goes down, the percent spent on marketing and sales should go up, as you work to boost the business back up. As the business grows, and you build momentum, you may be able to reduce the percent of income dedicated to marketing – unless you plan to launch a new product or service, in which case you'll need to push the marketing percentage way up, to support the launch.

Comparing income to hours worked, or income to number of people on the payroll tells you about productivity. If some of your employees are part time, figure out what they would equate to, as full time equivalents. If you sell a lot of materials, deduct for materials before calculating income. For example, 2 half time employees equate to one full time equivalent. In general, you want to have between \$100,000 and \$200,000 of gross income (not including materials) per full time employee, counting every employee from the janitor to the president. Below \$100,000 and you're probably not profitable, above \$200,000 and everyone is stretched too thin.

A couple of banking ratios are useful, in terms of telling you how

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solvent the business is at present. Current Ratio tells you about your short term ability to pay off debts. To calculate your Current Ratio, divide current assets (including inventory and prepaid expenses) by current liabilities. A 2 to 1 ratio, or 2.0, is a typical minimum, twice as much on hand in assets as you have in liabilities. The Acid Test Ratio, or Quick Ratio, tests the ability of the business to quickly pay off its' debt. Calculate the Quick Ratio by dividing liquid assets (assets that can quickly be converted to cash, which does not include inventory and prepaid expenses) by current liabilities. The Quick Ratio should be at least 1.0.

These ratios can act like stop and go lights. For example, If your Current Ratio is below 2.0, or your Quick Ratio is below 1.0, job #1 is to focus on cutting out spending and beefing up savings. It may mean that you have to put investment plans on hold, until you have more money in the bank. Paying attention to these ratios will help to keep you, and your business safe.

In addition to the standard items, and ratios, you want to establish tracking elements specific to your business and its' short and long term goals. For example, if you are planning to grow a specific product or service line, you want to monitor how revenue and unit sales are increasing for that line. If you are concerned about profitability of some or all of your

products, you want to monitor income, cost of goods sold, and gross profit, overall and by product.

If things are going along, on track, you probably want to monitor things on a monthly, quarterly and yearly basis. If items are off track, or below where you want them to be, you may want to monitor progress weekly. While monitoring things weekly can tend towards micro management, it also gives you a faster react time. In some cases, it may make sense to monitor high profit effects, like productivity and spending, on a daily basis. You have to decide what will most likely help you to step in quickly, to make a change for the better – that's what you want to track most frequently. The longer periods of tracking are for confirming that the business is on track.

You can determine if you're on track, or not, by setting a target, or goal, for each tracking element. Set up a report in excel, listing each tracking element, and the goal, then enter the result, by period, for each tracking element. Set up the report, using conditional formatting, to display the result in red, if it's below target. Then, monitor the report for red items. You may also want to display items that are twice their target in green, to help you identify where you're significantly above target in one or more areas.

Finally, remember that tracking is not about hitting one or more goals. It's about getting the business where you want it to go, and knowing how that benefits you and the company, when you get there. Some owners make the mistake of focusing on getting one or more tracking element in line, only to miss the point that it's about an overall result. Or, they get caught up in seeing a particular element as consistently sub-par, and come to believe that's the way it has to be. For example, many business owners come to believe that it's impossible to have significant reserves in the bank, which means a high Current Ratio and Quick Ratio. Or, they consider Current and Quick Ratios to be too intangible, and therefore not meaningful.

Be careful what you buy into for beliefs. Know that having a healthy business is what will reduce your stress, make the business easier to run, and keep you from having sleepless nights. If you can't figure it out on your own, ask for help. That's the sign of a smart owner – someone who is able to go beyond where things are currently, and visualize what they want things to be like, and then work steadily to get there. Remember, a great business is one that is easy to run, profitable, growing, and independent of the contribution of any one player, including the owner.

Looking for a good book? This



Trusted Advisor to Business Owners

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time, I'll recommend a website. Take a look at BizStats.com. They supply data that is industry specific, which you can use to compare your performance, versus your industry at large.

*Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at [www.AskAndiBlog.com](http://www.AskAndiBlog.com). Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.*

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