



Keeping Your Business Healthy - *Control the finances and business costs*

The word 'control' is important in terms of finances and costs as it suggests a level of management. On the other hand the words 'reduce' or 'cut', especially when linked to costs, suggest a reaction to something that is getting out of control.

It might sound a little pedantic because you'll need a mixture of the two now and again. However, if you are continually having to cut costs to get your finances back on track then the business is managing you rather than the other way round.

Budget for a surplus

To be in control you need a starting point and that means having a budget. Furthermore, once you have a budget you need accurate and regular financial information to check you are operating within it.

The maths is fairly simple; if you don't know what it's going to cost you to get your product or service in front of a customer then how will you know what to charge in order to make a profit? And if you fail to make a profit, financial problems will follow and the cost cutting axe will need to be quickly sharpened.



No need to do it alone

It is important to get everyone involved because each part of your business is a cost centre. Whether it be down on the shop floor, in accounts and admin or even the sales and marketing function, these people will not only have a good idea of the cost of things but also of areas of potential wastage where savings could be made.

Down to the last Post-it note

It might surprise some business owners but many an office drawer often contains three staplers whilst the stationery cupboard has none. The same can be said for pretty coloured marker pens, notepads and Post-it notes, all of which are simply re-ordered when the relevant shelf is empty. Whilst it might seem pretty trivial to talk about stationery, having a cupboard that resembles a Ryman's store but minus the till is a common money waster but one that can be fixed easily with the right controls. The old adage of 'look after the pennies



and the pounds will look after themselves' is a wise one. And if you can save a few pennies in the stationery cupboard, imagine what could be lurking in places such as the warehouse.

Take stock

A quick peep at the shelves in the warehouse should prompt one question; do we really need all that? If the stock moves slowly then the answer is probably no. And if it's piled high because it was going cheap at the time then it might have been a bargain once but it is now a drain on cashflow.

One question should then lead to another; who orders all this stuff? It is vital to have processes in place to stop any Tom, Dick or Harry dealing with suppliers without considering the wider financial consequences. Delegation and giving "ownership" to staff is one thing - giving them your PIN number and a supplier contact list is quite another.

Number crunch the number crunchers

A common mistake is to assume that activity equals efficiency. Accounts departments can be noisy places with staff constantly on the telephone be it in either accounts receivable or payable functions. Some businesses even incentivise credit controllers based on the number of telephone calls they make a day but surely the proof of the pudding is how much cash actually gets paid into the bank account? Similarly, to avoid further delays in payment, it is important to make sure invoices are raised correctly in the first place and that any legitimate credit notes are raised in a timely manner.



If the aged debtors report shows an increasing level of debt slipping into the old column then you're not getting value for your money or value for your telephone bill. You are also unlikely to hit those cashflow projections so you need a rocket or a replacement or perhaps even consider outsourcing the whole function to a professional outfit.

Accounts payable can also benefit from regular monitoring. It might sound simple but all invoices should be checked down to the last detail before being approved for payment. Remember, keeping your money in the bank for as long as possible whilst collecting cash from customers quicker is the cornerstone of cashflow management.



Save yourself the expense

The issue of expenses and disbursements can often be tricky, especially in respect of the sales function where a level of travel and entertaining is fairly routine. However, this can spiral out of control without a policy in place to outline just what is and isn't acceptable. For example, caps should be put on the cost of accommodation and an acceptable class of travel agreed. It is important that everyone knows where they stand.

Proactive or reactive?

So, it's clear there is a world of difference between reducing costs to make more profit and cutting back to lessen a loss. Proactive business owners with a budget will be able to monitor progress, identify possible savings and then make decisions without being under pressure. Cuts and reductions made in a hurry can often have a negative effect on business in terms of service levels, quality and staff morale.

A proactive approach also turns the whole exercise into a review rather than a requirement, and reviewing everything you spend money on makes absolute commercial sense. Just like at home with electricity bills and credit card costs, there is no shame in shopping around for comparisons.



Ask everyone that supplies you if they are giving you the best deal and if not can they improve it. If the answer to both of these questions is no then it's their loss when you find someone who can. But do it under your own terms and not just as a knee-jerk reaction when you suddenly find your accounts contain a lot of figures in brackets and you're on stop with a major supplier.

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