

# PROVIDENCE BUSINESS NEWS

YOUR LOCAL SOURCE FOR BUSINESS NEWS IN SOUTHERN NEW ENGLAND

## Keep the numbers under control for success

If you are like most businesspeople, you don't run your business. It runs you.

That's what I have witnessed during more than 30 years as a CPA, financial executive in public and privately held companies, and currently as a financial consultant to businesses.



### GUEST COLUMN

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But you don't have to feel like a hamster on an exercise wheel, racing but getting nowhere. You can gain control of your business, and in our tough and worsening economy, doing so may mean the difference between extinction and success.

The first step in running your business as opposed to it running you is knowing clearly what shape your business is in and where it is headed. That means knowing and understanding "the numbers" and the relationships between them – various key ratios. To put it bluntly, if you don't measure it, you can't manage it.

### FINANCIAL REPORTING

You don't have to be an accountant to know which numbers to watch, but you do have to have a reliable financial reporting system. To be any good, a financial statement has to be three things: accurate, timely and actionable. Financial statements should not simply be a listing of all accounts in the general ledger formatted into an income statement and balance sheet. Rather, they have to be structured appropriately to see your company's current condition and where it is headed. For the financial statement to be accurate, it is vital that all transactions are recorded in a consistent manner so they are comparable over time.

Identifying and analyzing trends in your business is vital. This will enable you

to take corrective action quickly. Each business is a bit different in that there are key performance indicators that are important to the company, the industry or to the owner. Generally there are four or five indicators that can speak volumes about where you are today and where you are trending.

### BALANCE SHEET MANAGEMENT

Many businesses have cash needlessly tied up in accounts receivable. The old accounting adage holds true: a sale is not a sale until the cash is collected. The collection process begins by sending accurate invoices as soon as the product is shipped or the service performed. Consider making it attractive and convenient for customers to pay you by offering an early pay discount and by accepting credit cards. Monitor the aging of your receivables and implement a disciplined follow-up and collection process. Lastly, be sure that your accounting system has credit holds and credit limits in place to prevent sales to delinquent customers.

Accounts payable can provide opportunities to improve cash flow. If cash is available, it is generally advisable to take an early pay discount. Some payables, such as health insurance and utilities, should always be paid on time but stretch out other payments whenever possible. There is no benefit to paying early without an incentive.

Structure financing (lines of credit, term loans, leases, etc.) appropriately for your business. Talk to your banker regularly to review changes in your business and how that might affect the structure of your loans.

### CONTROLLING COSTS

Ongoing cost control is essential in every business. Begin by having a budget so you can identify and analyze variances between projections and actuals. As part of

budgeting, note costs that are fixed and those that are variable. Focus naturally falls on variable costs but don't ignore your fixed costs. They tend to be fixed in the short term but can become more variable in the long run.

Examples of cost-management opportunities are:

- Outsourcing.
- Obtaining competitive bids on your health and general-insurance programs at least every two years.
- Establishing and monitoring travel and entertainment policies.
- Auditing your telephone bill.
- Reviewing the need for overtime on a regular basis.
- Becoming familiar with state-sponsored work-share programs in case you have to trim your workweek for a time.

### PLANNING

Some companies feel that budgeting is impossible because their business is unique. This is simply not true. All businesses can and should budget. A budget drives a stake into the ground against which you can measure your future performance. Budgeting brings together managers and temporarily removes them from their day-to-day activities so they can discuss the future of the company. Not everyone is comfortable doing this but a well-run process will generally overcome most objections.

To truly lead your business, you have to set goals, make a plan to achieve them and measure your progress at least once a month. Have the discipline to stick to your budget, but especially in times like these when conditions can change rapidly, review your numbers frequently and be prepared to make adjustments quickly. ■

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