

Are You Still Having Cashflow Problems?

You have agreed trading terms with your customers, you are invoicing your customers promptly, and you are chasing your debtor ledger in a structured way, thus ensuring you are paid promptly.

In addition, you have spoken to your suppliers, negotiated on their trade terms to you (including price), have looked around for competitive quotations, planned your cashflow for payment and sought their help in promoting their product(s).

But you are still having problems with cashflow!

Before turning to finance sources for more money then start to examine your cost base.

Produce an up-to-date set of management reports. Look at the total expenses of the business to date, and prioritise them starting with the largest expense and ending with the least. Starting at the top ask yourself the following questions about each line:

Does this item contribute directly to my sales?

Could I eliminate this item altogether (or reduce its cost by doing it another way) and still make the same sales?

Is the item being paid for on a loan, HP, lease etc., if so would the finance source consider reducing the repayments in some way on a temporary (or maybe even permanent) basis?

Does the 'sundries' line account for more than 5% of the total? If so it needs to be broken down and examined.

Are there any bad debts (either certain or potential)? Have I learnt anything from these?

Different items can be dealt with in different ways but it is normally possible to shave at least 10% from the overheads by doing this exercise firmly and objectively. This could make all the difference between success and failure.

If you are still finding it difficult to balance the books then there is one more question before you embark on getting into (further) debt.



Does the business really have any future?

If the business is just starting and/or going through a temporary lean period, then outside finance might be the right thing to do.

But you must look long and hard and possibly take outside objective advice before embarking on this road. It is so easy to delude yourself into thinking that there is a business there at all sometimes.

So go back to basics and do (redo) your market research and review your sales methods. Maybe this will highlight some modifications that could change your approach and improve the business.

The Office Administrator

There are a number of descriptions of the administrative function but quite often it is the oil that keeps a business ticking over efficiently. Without a workable administrative system amazing things can happen in a business. Some of the usual problems have to do with lost papers, lost vat returns, Inland Revenue dates missed and general muddle. What is worse is to discover that work has not been invoiced or records about jobs are lost or inaccurate.

There is many an MD who is well aware that administration is not his strong point and he will quickly get someone to help him. The essential skills of that administrative support person is an ability to multi task, to keep records straight, to be able to find essential bits of paper immediately and to keep the MD informed of any potential untoward happening while allowing him to get on with the essential business of the organisation. But, of course, there is much more to the administrative function than this.

There are a number of areas that loosely fit under administration, especially in a small company. This may include:-

- **Insurances.** Most companies will have office and contents insurance, employer and public liability insurance. There are also special insurance policies to cover company cars, professional indemnity insurance and other key man insurance policies.
- **Pensions.** All companies where there are more than 5 employees should be offering a pension to employees. These are usually Stakeholder pensions and can include pension contributions by the company to employee's pension plans. Pension control sits loosely between the HR function, the payroll and the accountant – but whoever looks after the pension, the detail is important.

A purchasing strategy is not the domain of the larger company or corporation. Without an effective strategy to manage supply chains or coordinate the purchasing function you will never be in control of your costs.

The lack of strategy can result in poor customer service, missed delivery dates and reduced staff moral. This is largely never calculated but has a draining effect on the business.

Purchasing and supply chain management should never be seen as a back room function but a key area of business.

In today's commercial environment purchasing can often redress the continuing lower price pressure from clients by maintaining or improving the cost of sale (COS) equation.

Cost reduction policies/ strategies over recent years have traditionally focused on what can be seen and touched, 'headcount'.

Their reduction has been the result of Productivity improvement, Automation investments, Outsourcing (sub contracting) and cutting out some activities see as unimportant. Headcount as a result has fallen and in many cases this has been a correct and modernisation process.

In some cases though it has been in blind panic to reduce costs and has obvious drawbacks. These policies have an effect of short-term cost increases, take time to administer and when not professionally implemented have a further drain on staff morale.

In many cases can also lead to industrial action and a skills shortage in the staff base. Once done Directors have to look else where for the next wave of cost reductions.

Procurement is the obvious place. Bought in services and material can amount to as much as 80% of the revenue base. With these sorts of numbers it is clear that a saving of 10% (which is very realistic) can have a

dramatic effect on the profitability of enlightened companies. As a model if a company spent:

- 50% on purchases,
 - 44% on other costs,
- they would have
- 6% profit.

By improving the purchase process by 10% the results are dramatic.

- 45% on purchases,
 - 44% on other costs,
- they would have
- 11% profit.

This doubling of profits has been achieved without any staff reduction or reduction in customer services.

In two of the recent cases we have been involved in, a small engineering company has improved the material purchase costs by 16% and in a larger company we produced savings of 26% the first year and 9% the second year.

A coordinated approach is needed to avoid supply failure. Increased rather than decreased costs are likely to result if the decisions are not consistent or inline with company ethos, structure and objectives. Companies should avoid jumping on the bandwagon of fads and fashions.

To get you thinking and moving forward to a purchasing strategy and lower costs here are six questions to ask yourself.

1. What is the % ratio between bought in goods / services and staff/facilities costs?
2. Who is responsible for purchasing, are they trained or qualified?
3. Are the purchasing decisions made in a rigid policy or is there flexibility to adapt to situations?
4. Are all purchases made centrally, does everyone involved know what is being purchased?
5. Are you confident you have the right buying process for both low and high volume /value items?

Are you confident you have the right policy to cope with the future needs and trends?

▪ **Health and Safety.** Any company with over 5 employees should have a health and safety policy in place, and this includes having first aid available for employees. Keep in mind that, should there be a claim, the MD is the person who would be prosecuted.

▪ **Facilities Administration.** In small companies, to have an in house IT support function is not usually one of the priorities, although it is essential for the smooth and efficient working of the office and someone will need to attend to computers, e-mail problems, printer malfunction and the like. Similarly the functioning of the telephones, alarms and security all fall under administration. Likewise, the ordering of essential supplies is vital to the efficiency of the business.

▪ **Accounting.** A number of small companies will outsource the accounting function but even when this happens there are finance related functions in the office which need to be controlled. One of the essentials is to have an easily visible record of cash in and cash out so that there is an at a glance view of current liquidity. Excel is a flexible vehicle for having these controls in place and easily managed. But some accounting software is very reasonably priced and user friendly and worthwhile investing in while the business is young.

▪ **Payroll.** Payroll has become a complicated business. Most companies will outsource the payroll function but if it is kept in house it needs to be run by a competent trained person using software that is compliant with the Inland Revenue criteria.

There are so many more areas that will fall to an efficient administrator in a small business, areas that will, in the organic growth of the business be eventually hived off to an in house accountant, an HR manager, an IT consultant or a facilities manager. In the meanwhile those efficient administrators are like gold dust, so please give them the value they deserve.