

Management needs to know it's in money business

Everywhere you turn nowadays you can find advice on how to maintain your personal financial health — where and how much to invest, personal budgeting, improving your credit score, etc. It's a bit harder to find simple, understandable guidance on how to maintain your business financial health.

Here are the key techniques we use with our clients, regardless of the financial condition in which we initially find them. Whether they are in sad shape or pretty good shape, we implement the items below.

Management. Your entire management team must understand that you are in the money business (earning a profit and generating cash), not the furniture or clothing or art or jewelry business. Selling something is your means to the end of making money.

Management must take personal responsibility for the financial performance and position of the business. No blaming the economy, the government, the weather, etc.

Management must be aligned. Regardless of how vigorous the debate might have been, the decision is always reported out as unanimous.

You must employ a fact-based management process to bring to bear the talents of your management team on the issues and opportunities facing the business. No spectators allowed.

Key metrics. What's important? Typically, the answers might include sales, margins, inventory turnover, customer satisfaction, etc. If it's important, measure it. Generally, things that get measured get better.

At the end of a weekly management team meeting, the attendees should be able to answer the question "How'd



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we do last week?" with specific facts and figures.

A management team that is on top of its numbers should never be surprised by the monthly financial statements. If you are looking at the right things daily and weekly, you should be able to predict what the financial statements will say.

Financial planning, budgets, forecasts. Most of us would not start out on a drive across the country without consulting a map and planning a route. The same applies to your business, where your financial plan, your budget, is your road map. Your financial plan, which should at least be annual, broken into months and appropriately detailed, deserves healthy discussion and debate among your management team. The plan should attempt to match results desired with resources required.

One pitfall to avoid: don't have your controller or accountant simply come up with a budget spreadsheet and e-mail the finished product out to everyone. A major benefit of the budget process is the "results vs. resources" debate. It helps drive ownership.

Once you have a solid, logic-based financial plan, management's challenge becomes to make it come true.

Cash forecasting and management.

Cash is the lifeblood of the business, period. If the business runs out of cash, it dies, it ceases to exist. Bankruptcies are caused by a lack of cash, not a lack of profit.

Your cash position must be continu-

ously highly visible. We recommend the use of a forward-looking, rolling 13-week cash-flow forecast. Forecasted inflows minus hard costs (personnel, facilities, debt and taxes) equals what is available to suppliers. You cannot disburse money that you do not have.

In optimizing your cash position, you want to be sure to:

- Tightly control your payables disbursements.
- Steadfastly pursue collection of your receivables, if you have any.
- Keep your inventory turning. Keep fast sellers in stock. Liquidate dead stock for whatever you can get for it, even if only pennies on the dollar.
- Control your appetite for facilities improvements, because these often don't hit the P&L in a big lump. It is easy to rationalize "not a big deal" — mistake!

Financial reporting and analysis. NBA players check the scoreboard every time they run up and down the court — every 24 seconds! There is a message there. You need to know the score, and the information needs to be timely, accurate and comprehensive.

If all you are getting now is simply a monthly P&L and balance sheet and you are getting that six, eight or 10 weeks after the end of the month, you are in trouble. What you need are:

- Financial statements delivered absolutely no later than the 15th of the following month.
- The P&L should be both current month and year to date and compared to plan and prior year actual.
- The balance sheet should be compared to prior month, prior year end and prior year.
- Other highly desirable information — inventory turnover or GMROI by product, payables aging by supplier,

receivables aging by customer (if applicable), sales and margin by product, etc.

■ And ... one or two pages of analytical commentary highlighting issues and opportunities hidden in the numbers.

Human resource processes. Your employees are your primary differentiator, either asset or liability or sometimes both. Your competitors have products, facilities, ad campaigns and computers, just like you. The one thing they don't have is your people.

In getting the most out of your people, you want to be sure to recruit for talent/personality and train for skills, make sure personal responsibilities are clear, clarify the organization structure (who can tell whom what to do, who makes what rules), continuously push for and expect strong performance and eliminate poor performance(ers).

Lastly, remember the old adage, "People do what you pay, not what you say." Make sure your compensation programs encourage what you want people to do. Is it sales? Sales at a certain margin rate? Inventory turnover? GMROI?

Key relationships and communications. You are surrounded by stakeholders — customers, suppliers, employees, banker, CPA, insurance agent, landlord, ad agency, etc. They all have a vested interest in the state of your business. Be sure to maintain ongoing, solid, fact-based communications with all of these groups. If your business hits a rough spot, it is one or more of these groups that will help get you through it.

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