Build Your Business

An eNewsletter for
CEOs looking to
grow their companies.

High-value, "how-to" articles on customer-attraction, sales development, leadership, and best-practices in HR, IT, product development, communication, financial operations, engineering and M&A/value creation.

Don't Be Blindsided By Financial Risks

This article discusses steps CEOs need to take
to ensure they are not blindsided by financial risks.

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Management Contract Services
Building Businesses in the Digital Age

Don't Be Blindsided By Financial Risks

What financial issues keep you awake at night? What is protecting your financial back side? Can you trust the financial information you are receiving?

Risk is defined as a "chance that something goes wrong". The reasons things go wrong are many, with just a few examples – and questions – below:

- IRS drops in to audit you.
- An employee has an accident on the job.
- A key customer goes to a competitor
- You need to replace equipment, but will it make money for you?
- Profitability drops off unexpectedly
- The size of inventory ties up to much cash needed elsewhere in the company
- What is included in a financial check up?
- You don't know who your most profitable customers are
- What is the cash flow and is it enough to pay all bills X days from today?
- "Can I make the next payroll?"

The cornerstone of every business is its financial records. Financial statements are the report card of how well the business performed. It does not look forward. Additionally, the financial records are only as good as the quality of information collected and how current it is. John D. Rockefeller became phenomenally rich because he measured everything and every aspect of his business. He then set up metrics to help measure efficiencies of his company.

We explore six steps to help you can be more successful and then provide a real case study of how these were successfully applied.

Six Steps to Improve Financial Operation:

1. Make sure your accounting program is reporting accurate financial information. For instance, expenses allocated to correct general ledger (GL) accounts. This will help stop processing month end adjustments and will save a great deal of staff time. It will allow month end statements to be produced more quickly. Some of these points are often overlooked, yet can cause havoc with your statements.

2. Review your general ledger (GL) accounting listing to make sure it has recorded all activities in your company. As discussed above, measure everything that can financially blind-side you. Metrics of value include sales (volume, close ratios, per customer, per product, etc.) and related costs for each product line (COGS, inventory, receivables, payables, etc.). There are also department and overhead allocations tracking that allow you to evaluate employee productivity.

   This allows you to better understand what is happening at your company. Get as close to real time financial activity the better. Anything more than 12 days can cause delays in decision-making. The more information you have will generally allow you to make better management decisions. The one caveat is not to be bogged down with information overload. For instance, "leading indicators" are far better than "lagging indicators". Knowing sales cycle, close ratios and average deal size will eventually appear in cash statements; days, weeks or even months later.

3. Receive your month end financial reports by the 8th to 10th day of the following month. Many companies' senior management doesn't receive financial reports until the 15th to the 20th day of the following month. The problem is you can be blinded to current financial activities. You could be making management decisions on information that is too old. Making decisions on old data can potentially lead to terrible outcomes. Consider using daily-modified profit and losses statements along with balance sheets reports. This distills important financial operation function information down to a two page report (this will be discussed in a future edition).

4. Imbed into your company's culture that every employee must deliver timely and unvarnished financial news. You never want to receive financial surprises. This is accomplished by writing it into the company's handbook. The company's leadership then should repeat the message every time there is an employee or departmental meeting. The advertisers say an advertisement doesn't become effective until it is heard eleven times. My management experience has shown me that this statement is true. I know it is working when I hear my employees repeating the message to customers. Each high-performing company has their own DNA. This requires a constant and ongoing commitment by every employee of the company.

5. Protecting your financial records is of paramount importance. This includes backing up your records off site, or at least taking backups offsite, daily. Limit employee access to the financial information. Are your records and computer data are physically secured? Make sure you have excellent internal financial controls, like duel custody of all cash handling and physically securing and backing up computer networks offsite. According to LP Innovations, Inc. 50% of company thefts are a result of employee larceny: They believe that theft can add as much as 50% to your costs. An example of this is: *the average internal embezzlement is over $175,000*. Think about the theft of the little things like employees pilfering supplies or products. The dollar amounts add up very quickly. What is the cost of an employee stealing *your* intellectual property?

6. Systematize your financial operations policies as much as possible. Companies perform better when they have consistency across every activity. This includes sales, customer service, warehouse, personnel and finance departments. It can also increase employee productivity by processing sales orders the same way every time or handling customer complaints. A company I ran was using four different connectors that did the same thing. I selected the use of *one* top quality connector. The result was a 43% savings. We saved money on bulk ordering one product, we saved on shelf space and our service calls fell to almost zero. Examples like this reduce management's attention of standard activities. Here is where the 80/20 rule applies. Instead of focusing on 100% of company activities, management will only have to focus on 20% of the exceptions.

A Real Example of the Six Steps:

I had a dynamic technology client that was making money, but they did not know where they were financially. They were growing at an exponential ate. They had major challenges keeping up with their sales growth. They had inadequate operating and financial systems. Almost all sales were done through credit card sales. The only way they knew what sales they had were by downloading their banking transactions which were in single gross balance deposits. These transactions were not allocated by sales type or any other detail. Sales were made by independent contractors. The company was unaware of what the profits were and what the profits for each product line were. Meaningful financial records were 240 days old. They had very limited financial controls. With this as backdrop, I was brought in to introduce financial and operations structure and discipline to this company.

The first thing I did was conducted a 360º financial risk analysis. This includes company records, company trade secrets security, plant and employee security and policies regarding these issues. Complete analysis of Accounts Receivables, Accounts Payable and normally Inventory are the great consumer of many companies' cash. In this case, the company had no inventory. (I was a CEO of a company that had over $120,000 tied up in cash. After four month of work the inventory was cut in half freeing up $60,000 in cash). We also reviewed insurance, like general liability and workers' comp policies.

I looked for ways to off load as many risks liabilities as possible and made sure all tax payments had been made and are on time and reviewed all operating and personnel policies.

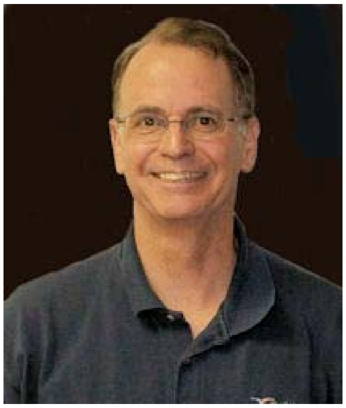
This company had one major system that was working for their benefit. It was a web-based customer commission report. The company was using QuickBooks Pro accounting program that had a rudimentary General Ledger (GL) list. We restructured and expanded the general ledger accounts, which recorded all aspects of the business. This allowed us to start measuring things that were previously neglected. We were then able to record sales by classification. Then set them up by geographic locations. We knew the web based commission report was accurate and had detailed sales information along with the independent contractors' tax identification numbers.

Next we got a talented software writer to create the script to import all the detail sales information along with the 5,500 independent contractors' addresses and tax ID numbers into QuickBooks Pro. This then allowed us to generate yearend 1099 forms. The next big challenge was to take a year's worth of account transactions and allocate them to the new GL accounts. Then we went through a complete account reconcilement process. Once this process was completed we had high degree of confidence in the financial information.

We were finally in a position to generate meaningful management information reports. This allowed management to make better strategic and tactical decision. The next item we tackled was developing a daily Profit and Loss report along with a daily Cash Flow report. Prior to the development of these reports, management was flying blind. One meaningful report was a sales analysis report. It turned out one of their products accounted for 80% of the profits, but didn't have the visibility they needed to make that kind of decision. The company changed their whole sales effort as a result.

We next instituted a risk analysis. The result was installing written operation policies. This includes internal financial controls. Some of the items were securing the checks, as well as the financial records and restrictions access to the accounting program.

The example above shows the importance and benefits of having a management information system that tracks and measure critical activities of a company. It is essential to have timely information. The closer the information is to real-time, the better each strategic (and tactical) management decision can be. This could be worth thousands if not tens of thousands of dollars to your bottom line. And a bonus… Good record keeping makes life more tolerable if the IRS pay's you an unexpected visit.



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Additional insights and value from leading authorities in their areas. Articles in the January, 2011 publication:

How to Attract Significantly More Customers — **Mark Paul**
Do you have all the customers you need? Are you open to new ideas and ways of looking at customers-attraction? If so, you will want to read this article.

Don't Be Blindsided By Financial Risks — **Patrick Wheeler**
What keeps you up at night? Have you been surprised by financial hiccups? This article shares six steps and a case study to help you mitigate financial risks - to help you grow your business.

Create High-Performance Teams — **Tom Cox**
Some CEOs don't need coaching because they are perfect. For the rest, this article discusses reasons why to embrace coaching, how you've already done it, and how to do it even better.

How to measure the business value of technology - Scorecarding — **Manoj Garg**
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If your speech doesn't have an unmistakable point; If you never practice out loud; If you never tell stories; you're boring your audiences to death. If you recognize you &/or your team in this article it's time to take action.

Sales Strategy-the Most Critical Element of Corporate Strategic Planning — **Bill Etheredge**
Are revenues tracking to your annual plan? Are you constantly looking for that elusive "world class" sales executive? This article shares how you can boost sales by integrating sales with your strategic planning.

The Urgent Role of HR in M&As — **Iris Sasaki**
Fully 70% of M&As fail to create shareholder value. It is crucial to look at all the possibilities that lead to success.

Paralysis by Analysis: How Development Schedules Slip — **Mike Miles**
Several factors contribute to schedule problems. Recognizing when it's happening, and acting to minimize the effect are explored in this article.

Finding the Street Value of a Privately Held Company — **Brent Freeman**
Maximizing your company's value requires knowing how the market values closely held companies. This article deals with a straightforward method that CEOs and owners can use to find the "Street Value" of their company.

Balancing process against Creative Freedom — **Gary Chin**
This article discusses one of the biggest challenges companies have in developing new products and/or running projects in a matrixed environment.

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