

IMPORTANT BUSINESS INDICATORS THAT WILL IMPROVE YOUR BUSINESS

1. DO A FINANCIAL HEALTH CHECK OF YOUR BUSINESS

In tough times, you should regularly analyse the financial position of your business. You can get a lot of information on the health of your business by analysing your financial statements. Pay attention to financial ratios such as liquidity ratios, solvency ratios, profitability ratios and return on investment ratios, and compare these ratios and indicators with prior year figures and similar businesses in your industry.

2. IMPROVE YOUR CASH FLOW

In tough times, one of the most significant problems faced by business is poor cash flow. Many things can be done to improve cash flow, these include: collecting outstanding debts promptly, preparing regular cash flow forecasts, skewing promotions to products or services that can be turned into cash quickly, rewarding staff behaviour that improves cash flow, selling unnecessary assets, reducing stock levels, replacing slow-moving and obsolete stock with stock that has a faster turnover and making full use of your terms of trade.

Also ensure that personal drawings from the business do not get out of hand, and that finance from external sources is sought on reasonable terms.

3. IMPROVE OR RETURN YOUR BUSINESS TO PROFITABILITY

A profitable business is typically a successful business. Therefore it is important that while you improve the cash position of the business, you also aim to be profitable. Ideas to improve or return your business to profitability include: focusing on sales that give you the highest margin, not discounting low margin products or services, not discounting unless you can achieve the same or better gross profit through increased sales volume, controlling costs, being flexible with staffing arrangements and ensuring that only profitable sales are chased.

4. IMPROVE YOUR ACCESS TO FINANCE

All businesses need finance to grow. Finance can be provided from debt, equity and internal sources. Ideas for improving your chances of accessing external finance include: disclosing all necessary information required by the bank, seeking finance as soon as you identify a need and remaining sensible about the amount you actually need to borrow.

Take time when preparing finance applications, as a well prepared business proposition is a good sign of a borrower's commitment to a prospective lender. If you fail in your loan application, find out why.

5. TAKE STOCK OF WHERE YOUR BUSINESS IS AT

In tough times, you should adopt a risk management mindset and take stock of your business more broadly. It is good practise to conduct research to find out if your customers and competitors are also experiencing tough times, and if so, how they are responding. Be careful not to starve your business of essential investment, and regularly review your business operations to look for improvements.

6. REVISIT YOUR MARKETING PLAN

In difficult times there is generally less money available for marketing. It is therefore important that your marketing plan is focused on achieving key objectives to get you through those tough times, particularly improving your cash position. Ideas for marketing in tough times include: focusing on sales that have a high margin and bring in cash quickly, rewarding staff for sales of products with a higher margin, only paying staff commission when payment is received, measuring the success of each promotional activity or campaign so as to gauge its efficiency and focusing on encouraging customers to pay at the point of purchase or to pay as early as possible.

7. ADOPT APPROPRIATE RISK MANAGEMENT STRATEGIES

Tough times can expose risks which were not previously apparent. Such risks include: relying too heavily on a small number of major customers, relying too heavily on one supplier, selling on credit and fraud.

8. TAKE ADVANTAGE OF OPPORTUNITIES

Don't turn a blind eye to new opportunities that are consistent with your strategic direction and can be properly funded.

Tough times can expose risks.

9. OTHER COMMERCIAL CONSIDERATIONS

During tough times, take care not to breach your loan terms and conditions. If you do, inform your lender promptly.

Also, ensure any asset protection steps are effective. Be wary of entering a payment arrangement with the ATO as this could impact your ability to raise finance with a lender.

CONCLUSION

Businesses that are well run use these ideas during both the good times and bad in order to maximise their profits, grow and minimise risk.

Source: CPA Australia