

# Financial Health

## The Importance of a Clear Financial Picture For Your Business

*By Paul D. Alexander*

### **About the Author**

Paul Alexander is a business consultant and the creator of many highly effective business improvement processes. He is a leader in the development of customer and employee engagement programs for businesses in the United States and Mexico, and is renowned for turnkey, proactive: marketing, sales, customer loyalty and employee satisfaction solutions. Paul is Chairman of Alexander Group, Inc. and brings more than 23 years of experience in the performance improvement industry to his clients and his writings.

Turn the television to the evening news on almost any given day and you will see a variety of reports about Swine Flu, regular Flu, natural disasters, manmade calamities and business shortfalls and failures. These reports are interspersed with health tips and a variety of other tidbits of information which may or may not make a difference in your life.

What you will not hear much about is how to make your business better. This kind of reporting is reserved for special articles in the Wall Street Journal and case studies in various business magazines. Of course, the problem with all of these articles is that they are either completely specific to one business with a particular set of circumstances, or they are so general in nature that you will find the information difficult or impossible to apply to your own business.

Ideally, what you want for your business is information that you can use to analyze what you are currently doing, make valid decisions and implement change that will drive measurable bottom line results. This sounds like a very tall order, however, with the proper approach, information and an understanding of what the information really means this is very doable for every business person.

If your company has a CFO, then ideally that person is capable of not only gathering financial information but more importantly, adept at the analysis and interpretation of the data. If you do not have a CFO, then this task falls to you or someone else either inside or outside your organization. The most important question to ask yourself is; “How reliable and applicable is the financial insight that I am getting and how can I use that information to make my business better?”

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If yours is classified as a small business and you are the owner or top manager it is quite possible that you achieved your success by being expert and exceptional in the core value of your business. Most businesses are

driven by; Products/Services, Customers/Clients and Marketing/Sales. It is quite possible that you are very successful due to your competence in one or more of these areas, you have innovative ideas and you are willing to make the sacrifices necessary to achieve your goals. While at the same time, you may not be an expert at analyzing your financial results and forecasting changes and problems before they occur.

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If this applies to you, there are several ways with which you can improve your situation and take a more firm control of the financial health of your business. The three best paths to resolution are:

1. You, or a top manager that you designate, get the training necessary to fulfill the function of the required financial roles
2. You hire employee(s) to fill all of the required roles and due to the limitations of most employees, you may require one person for each area of expertise
3. You can seek out and retain outside resources which can fulfill the roles on an ad hoc basis

Whichever option you choose you must be constantly mindful that financial reviews, analyses and interpretation of trends and results represent elements critical to your business success. At the same time they are functions which require skill and experience in the creation, interpretation and instigation of necessary change.

To be truly successful, and to know that we are successful, requires measurements in several areas. Very often the results are not black and white, rather they require interpretation.

How we measure success is usually a personal indicator. In some way we almost always consider how much money we earn as a key factor in the measurement of success. However, to be truly successful, and to know that we are successful, requires measurements in several areas. Very often the results are not black and white, rather they require interpretation. For example:

- Do you have knowledge of how your net income compares to your competitors?
- If yours is a niche market, what method do you use to extrapolate data from similar industries and businesses and use it to compare your results?
- What method do you use to relate gross revenue to gross profit and then to net income?
- How do you value your assets and determine the net worth of your business?

- How often do you see financial statements for your business, how accurate are they and do they adequately reflect; balance sheet data, profit and loss and cash flow?

If you are unable to see inside your business and understand the nuances of your financial structure, costing and profitability, it is nearly impossible to know if you are truly making the best possible deal.

In dealing with our customers it is generally accepted that the best way to maintain the essence of a relationship is by always delivering high quality products and/or services at fair competitive prices. We do not wish to leave any money on the table, while at the same time, if we try to get every last dollar from every deal, it can very often be the true last dollar that we will ever receive from that customer. Everyone likes to feel like they made a good deal for their company and themselves and delivered a fair value to their customer, which makes the concept of win-win a valuable business guide. However, if you are unable to see inside your business and understand the nuances of your financial structure, costing and profitability, it is nearly impossible to know if you are truly making the best possible deal.

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Growth, profitability and a strong reputation in our industries and in our markets is what we all seek. If we stay focused on our goals while constantly improving the financial health of our companies, the end result can be very good. We can help accomplish this by considering things such as:

- Liquidity
  - Can we grow our business without cash shortages?
  - Are our Accounts Receivable within acceptable limits?
  - Do we manage our Accounts Payable so that we get the best use of our money and still benefit from vendor discounts and protect vendor relationships?
- Profits & Profit Margins
  - Is our gross margin on our best products and services an appropriate amount?
  - Are our fixed costs under control and a correct proportion to our revenue and profit?
  - Are our marketing dollars well spent and do they drive measurable results?
  - Are our employees properly compensated for effort and business success?
- Sales
  - Do our best customers buy our best

- products?
  - Do our annual sales continually increase and if not, why not?
  - Are we able to track sales as they relate to customer satisfaction?
- Borrowing
  - Do we get the best possible terms from our suppliers?
  - Is our Debt to Asset ratio acceptable in our industry or business type and is it the right proportion of our revenue?
- Asset Management
  - Are we maximizing our operating capacity by using 80% or more during peak times?
  - Do equipment and capital purchases truly reflect the needs of the business?
- Human Resources
  - Do we have the right people in the right jobs?
  - Are our job descriptions and policies adequate and relative to our workforce?
  - Is our workforce capable of increasing production with no increase in equipment or people?
  - Does the workforce feel well treated, cared for and rewarded for their efforts?

To be an expert at the thing(s) that made us successful is what is important.

You may choose to consider this paper a thought starter, a reference guide, or a call to action, whichever is dictated by the needs of your business. The underlying message is this, if you do not know about it you cannot manage it.

We should be proud of our successes and able to accept the fact that it is not necessary to be an expert at every aspect of our business. To be an expert at the thing(s) that made us successful is what is important. In addition, what we really must have is the ability to identify that which we do not know, and the insight necessary to find the outside resources necessary to give us what we do not have.

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Regardless of your current level of success, just imagine how much more successful your business can be if you have a clear view and a succinct understanding of its financial health.