

IF YOU'RE NOT MAKING A PROFIT, WHY ARE YOU IN BUSINESS? (Part 2 of 2)

(5 Minute Read)



It's true, that is why we take the risk and make the effort to start a business in the first place – to make a profit. That is the reward for the entrepreneur who is willing to work long hours, take huge financial and personal risk, and who face a multitude of challenges to get a new business off the ground.

This is the second part of a two-part blog series which I decided to write as we spend so much of our time assisting small business

owners to get it right as they say. In case you missed Part 1 you can read it [here](#). This article focuses mainly on the management of your funds (money, cash on hand, deposits etc.) and we discuss a number of important principles. Like all principles, if you break them, there are dire consequences.

Ready to become profitable? Let's get right into it!

MONEY OFTEN COSTS TOO MUCH

I borrowed this heading from Ralph Emerson and it's so important I cannot stress it enough. Not having any cash on hand is far more expensive than making sure you get paid in the *first* place. You have to be good, or get better, at managing your cashflow. What do we mean by this?

Simply put, you *have* to be paid for the service you render, or the product you sell, as your entire business depends on it. More important is that you have to be paid on *time*! Depending on the type of business you own, cash is often intricately linked to how you

manage debt which we will address this in the final section of this article.

What we mean by cashflow is simply put that you should have sufficient cash on hand to operate the business and to pay expenses. Your cash is best managed when you are aware of your spending limits and when you actually stay within those limits. One way of controlling your spending limits is by making use of a budget, which we will also address, in the next section.

We often find, when consulting with our clients, that they offer customers very favorable repayment terms but that their *own* repayment terms with suppliers are terrible. Make sure you negotiate the best deal possible with your main suppliers. If you pay on time and place regular orders, they should reward you for this, they can, for example, offer you free delivery, or a discounted rate beyond a certain order size, or discount for earlier payments or just better overall repayment terms.

Lastly, but likely most importantly, is that you should also ensure that you negotiate favorable finance terms with your bank. Traditionally banking fees are what they are, but these days banks offer a multitude of account and transaction options. Make sure you sit down and negotiate finance and transaction costs at least twice per year with your bank. Also have a look at what other banks have to offer.

TELL YOUR MONEY WHERE TO GO

A budget is basically you telling your money where it needs to go. Many small business operations have a misconception that budgeting is only for big corporates who spend a lot of money, but nothing can be further from the truth. In fact, in a small to medium enterprise finance options are sometimes entirely dependent on shareholder capital and cash contributions which makes spending it according to a budget even more critical!



Without a budget, you don't know how much you actually have to spend or when you run the risk of a cash shortfall, which is why you need a monthly assessment of your financial performance. You simply have to evaluate the accuracy of your budget and how well you (and your employees) remain within the financial borders set by the budget. Review monthly financial performance and try to understand why you were over or under budget. Implementing a rewards program for staying within budget is one way of motivating employees and department heads to take the budget a bit more serious.

An important way of keeping track of expenses and to help you to be better at budgeting is to get into the habit of accumulating operating statistics. This can include but is not limited to things like fuel consumption, total kilometers traveled per business vehicle, total overtime hours worked per month, total of each stock order per month and so forth. At the end of the year, you will be surprised at how useful these statistics are to sense-check your budgets for the next financial year.

Lastly, you need to perform a detailed analysis of each month's budget performance and understand why you were either over or under budget. Reviewing your performance against the budget will reveal crucial details about your spending habits, your business and what processes and practices might be the best practices to follow or to eradicate. This review must also be done over an annual period and must be part of the annual strategic planning session to make sure the new budget is even better than the previous year.

Over time the hard work required to develop and maintain your budget, will pay for itself. There is a saying in business that goes, *“You don’t have a cashflow problem, you have a budget problem”*.

I’LL PAY YOU BACK...

As I said at the beginning of this article, good cash flow management is closely linked to effective debt management. When I say “debt management” I am referring to customers who owe you money and how you go about making sure that the outstanding money is paid back; which is basically *the* most important point to get across – that you actually need to get *paid!*



I am often shocked to see the levels of debt some of our clients tolerate in their businesses and it is unfortunate to see how their kindness are often exploited. Make sure you get paid on time by offering a discounted rate for regular or earlier settlement of accounts, but also be firm with late payers and charge interest on late payers.

For poor paying customers, it is often better to request an upfront deposit payment before approving the requested transaction. It is also highly advisable to charge interest on late payments as mentioned above. In extreme cases it's better to stop all transactions until such time that a high outstanding account is settled. This might lead to the end of the business relationship but will serve your financial interests in the long run, as poor paying customers are different than non-paying customers, over time both cause you great financial losses. Remember that your first loss is often your best loss.

Effective debt management may also include the money that *you* owe (creditors) other business service providers or suppliers. As stated earlier, we urge clients to regularly negotiate favorable

account and repayment terms with suppliers. Never underestimate the compounding effect of small savings on your overall cashflow. Albert Einstein once said *“Compound interest is the eighth wonder of the world. He who understands it, earns it...he who doesn't...pays it”*.

The best way out of bad debt in your business, is not to get into bad debt in the first place. Keep a close eye on outstanding payments by reviewing your 30- and 60-day age analysis on a regular basis. Ensure that your terms and conditions are clear to customers from the outset and that they understand the repercussions of non-payment of their accounts. Take the time to comprehensive credit checks and financial analysis and of all new account applications.

IN CONCLUSION

Small to medium business live or die based on their ability to guard their cashflow reserves and by making sure that the financial flow of all their money is managed right down to the last cent.

The serious entrepreneur will make it a key priority to keep manage and maintain the following three important business functions in check, namely:

- Cashflow Management
- Budgetary Control and Management
- Debt Management

In this two-part blog series, I addressed what I believe lies at the heart of any successful business, irrespective of its size, namely revenue (income, cash, money) and cost management. The entrepreneur who manages to keep these two elements under control will not only soon become handsomely profitable but will be able to *maintain* that profitability.

This might require that you need to make a number of critical changes in your business and support processes, but this should be easy to do when you consider Joseph A. Schumpeter's famous words, "*Profit is the payment you get when you take advantage of change*".

I hope you found this article to be meaningful and that it again reminded you of important business habits. Let us know if we can be of service to you in your pursuit of being more profitable.

You can read all about our professional and consulting services to small and medium business owner's [here](#).



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