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business**Vision**

Survival

How to ensure that your
Business is fit to face the future

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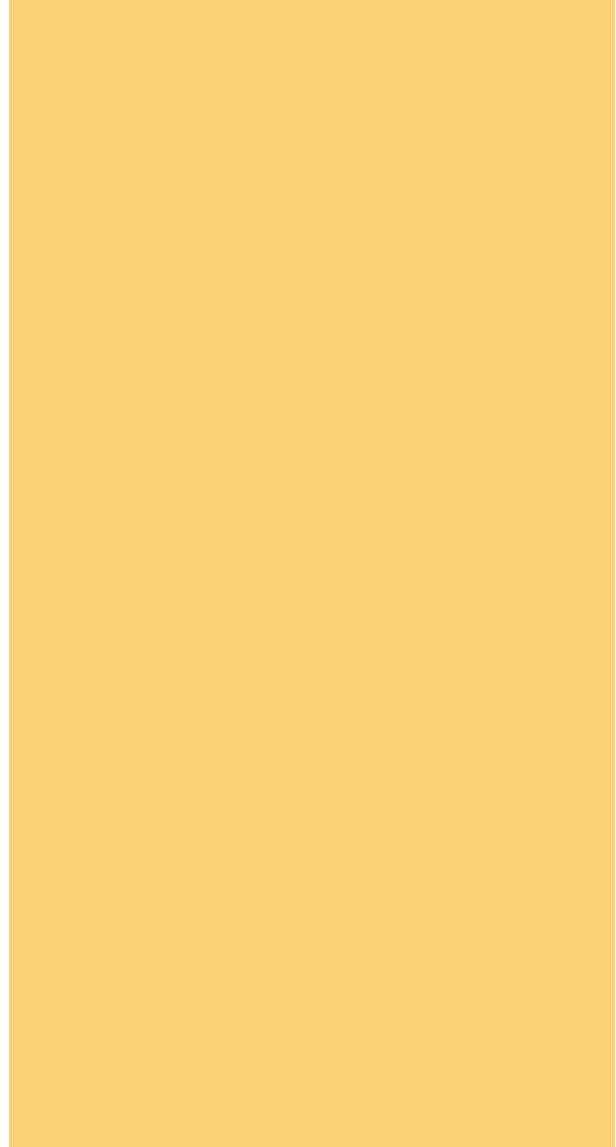
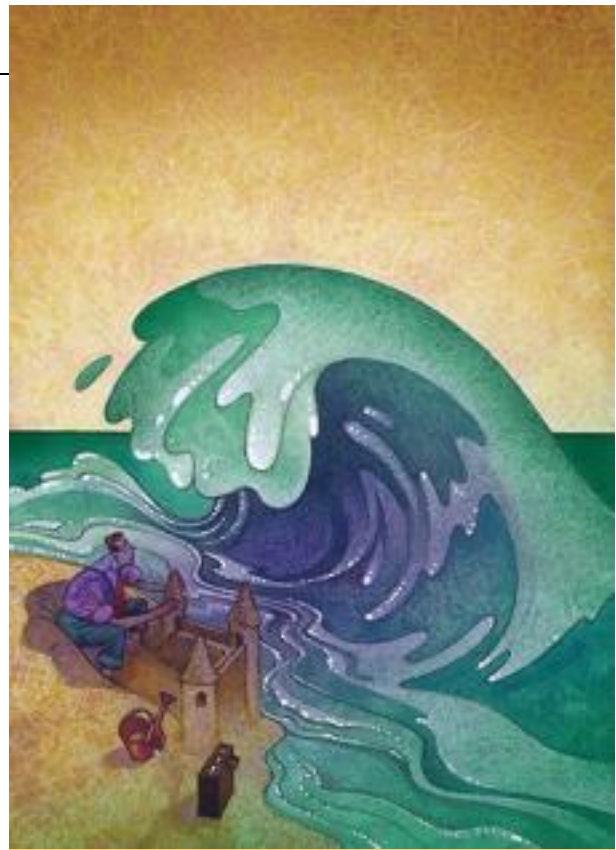


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Introduction

Living as we do in turbulent economic times, small and medium-sized enterprises are constantly facing the threat of losing customers, losing market share, seeing profits turn into losses and finding that they've run out of money. Whilst we may not be in the throws of a recession, it may feel like one - especially in the manufacturing sector where growth prospects look more uncertain.

Dismal though it may sound, many businesses have to face a future in which there is greater competition and profit margins will be smaller.

Control your Finances

One of the first steps you should take is to prepare a comprehensive, up-to-date budget of how you really expect your business to do in the next six months.

Think first about your expected level of sales and then estimate your level of costs. Then use that budget to prepare weekly cashflow projections for the next three months. Think of each type of cost and when it needs to be paid and do the same for each type of income. Update your projections every month.

It's important to work out your financial needs for the next six months in detail. This can be best achieved by using your cashflow forecast to determine the amount of cash required to fund the day-to-day running of the business. Apply some sensitivity to your forecast - for example what impact a 10% reduction in sales will have. This will give you a clear idea of how much cash your business will need and any critical periods where additional cash may be required. At this stage you may decide the need to find some new external finance - but make sure you seek these additional funds well in advance, not at the last minute.

In addition, keep your bookkeeping up-to-date and monitor your accounts regularly, particularly your cash situation. You should prepare a report on your performance every month and review your cost levels carefully.

Ensure tight day-to-day control over your cashflow. Limit the number of people who are authorised to spend it and make sure

every item of expenditure has a budget and is within that budget. Make everyone in your business cost-conscious by encouraging staff to think of cost-saving ideas.

Reduce your Debtors - money your customers owe you

The most effective way of controlling payment is to implement an effective credit management system. The system should have three main elements:

- An accurate recording of all relevant information;
- A procedure for checking whether a customer is likely to be credit worthy;
- The mechanisms for collecting money owed to you.

Accurate Recording

Always ensure that you have precise payment records for each of your customers. At any time you must know who owes you money, the amounts involved, how old the debts are, which debts are in dispute and what action you have taken so far to try and collect payment.

Credit Policy

It's important to establish a firm credit policy and emphasise your payment terms to your customers. Also, make sure you have a standard procedure for pursuing debts, with specific actions at given intervals after the payment due date. It's advisable to check the credit worthiness of all new customers and review your credit limit for existing customers regularly. Give each account an overall limit and advise the customer what this is. Don't be afraid to stick to it. Avoid giving credit terms at all, if you can.

Prepare Sales Invoices Efficiently

Make sure that your sales invoices are prepared efficiently. Check that they are accurate, complete, and legible and that they are going to the correct person and address. Prioritise the despatch of larger value invoices over small ones.

Also, you should consider using outside specialists to accelerate customer payments and boost your cashflow. A Sales-Linked Finance company like Alex Lawrie can pay

you up to 85% of the value of each invoice you raise within 24 hours as handle all your credit control.

Key Action Points

1. ALWAYS CHECK THE CREDIT STATUS OF A NEW CUSTOMER

Risks must not be underestimated in the enthusiasm of taking on new business. Credit checks can be done quickly, and are relatively inexpensive. It is important to establish the correct business title, together with its legal status (i.e. limited company, sole trader, etc), before seeking reports from agencies or trade references.

2. REVIEW EXISTING CUSTOMER STATUS

Remember that circumstances affecting existing customers are constantly changing, so they will also need regular reviews.

3. CLEARLY DEFINE AND AGREE CREDIT LIMITS

Always ascertain the expected size and regularity of orders. Use this to assess the limits required. Set a credit limit for each customer and stick to it. For new customers set a relatively modest credit limit, and then gradually increase it when and if they demonstrate they can pay on time. Do not give unlimited credit.

4. SET OUT TERMS AND CONDITIONS OF SALE

Few businesses today can trade without giving credit, so it is vital that customers understand the terms on which business is conducted. Terms of sale should be stated boldly on order acceptance, invoices and any other documents. Include a provision for adding interest to the outstanding account to help encourage payment on time. Make yourself aware of your company's legal entitlements concerning the Late Payment of Commercial Debts Act.

5. CHASE OVERDUE ACCOUNTS REGULARLY, AND TAKE PROMPT ACTION

Send out statements monthly. Do not wait until the end of the month before invoicing if you can send out invoices at the same time as you send out the goods. Be firm with slow payers. Telephone them regularly and always send reminder letters, first class to emphasise importance. These letters should be

personally addressed, polite, firm and to the point.

6. FOLLOW UP OVERDUE ACCOUNTS BY TELEPHONE

Check customers have received invoices, and that there are no queries. Find out which invoices are being paid, how much, when and how. Deal with the same person each time you contact the company and make the largest outstanding debts your priority.

7. CHECK ADMINISTRATIVE DETAILS

Ensure that invoices are correctly addressed, relate to the goods delivered, and include order numbers if they are required. Conduct regular checks to ensure that all details are up to date and accurate.

8. KEEP ACCURATE RECORDS

The sales ledger must record all sales, credit notes issued and adjustments to accounts. Invoices and payments should be entered, as soon as they are issued or received.

9. RECOGNISE ANY PROBLEMS AT AN EARLY STAGE

Be aware of potential problems and take action immediately. Only use a solicitor as the very last resort as the legal bill may be out of all proportion to what you are owed.

10. CONSIDER FACTORING

Investigate using the expertise and experience of a Sales-Linked Finance organisation that has the systems and resources to help you improve your cashflow. This will remove all the hassle and time spent on credit control - let the professionals do the work!

We also have a publication that lists a number of Sales Linked Finance organisations (123-Factoring and Invoice Discounting) which we will be happy to provide to you upon request.

Consider your Purchasing

It is normally prudent to defer any major or risky purchases, which are not absolutely necessary. Review all of your purchasing arrangements and take a close look at how your suppliers deal with you.

Can you negotiate better prices, obtain extended credit, and get quicker deliveries to reduce your stockholding? Are there any special offers available that you can take advantage of? One way of obtaining better prices is to consider inviting a range of suppliers to tender for your business. Here you can use your bargaining power to negotiate the best possible deal. This should not only include price but options for special discounts for early payment or extended payment terms if cashflow is tight.

New business is the lifeblood for most businesses. But savings made in the purchasing side of the business can have a dramatic impact on improving your gross margin. If you can improve this then both profit and cashflow should also improve as a direct consequence of the actions you have taken.

Ensure you have tight Stock Control

It's a good idea to carry out a full review of your present inventory system and identify areas where you can improve efficiency and cut costs. For example:

- Are your record keeping and planning procedures as effective as they could be?
- Are your storage and delivery facilities properly organised?
- Do you need to hold large amounts of raw materials?

Also, focus your stock control efforts on high-price and high-volume items. Tighter control of this will make more of an impact on your inventory costs.

In addition, minimise work-in-progress and finished-goods stocks by making your production process as fast, simple and streamlined as possible. Identify and remove frequent bottlenecks and avoid producing 'just for stock'. Make sure that you deliver finished products promptly.

Make your Sales and Marketing more effective

Why not review the costs and margins of each of your company's products? Consider dropping unprofitable products and limit your selling effort to the most profitable ones. Also, it would be sensible to avoid extra sales unless they will actually make you money fast. Otherwise they will simply strain your working capital further.

Work out who your most valuable customers are - in terms of profit margin and long-term loyalty. Ensure you maintain close contact and improve your relationship with them by listening to what they say and delivering what they want.

It is a good idea to use incentives to help you reduce the level of slow moving or ageing products you hold and convert them into cash. These incentives to customers or distributors can be special discounts or promotional offers.

Why not focus your sales and marketing efforts on immediate lead-generation rather than image building and use techniques proven to give you direct business? Ensure your sales force are as productive as possible with their time. And don't reward them for making a sale until the customer has actually paid.

Reduce your Overheads

Finally, scrutinise each of your company's overheads - costs that don't vary directly with output. Significant overheads to focus on include your rent, rates, power, lighting, plant, equipment and, of course, your staff costs.

Cut down on your staff overheads by identifying ways of improving the effectiveness of your team, having fewer levels of management, improving productivity and making more use of contract or casual staff. Make salaries less fixed and dependent on actual performance.

Ensure you have someone in your business that is responsible for monitoring and controlling your costs. Use this person to conduct campaigns against unnecessary paperwork, look to eliminate time-consuming meetings, drop burdensome procedures and abandon little-used reports. Make effectiveness and efficiency your key golden words.

Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

If you would like to receive further information about this subject or other publications, please call us – see our contact details on the next page.

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Publication issued or updated on:
18 March 2010

Ref: 341



business**Vision**

We are different to other accountants

We work much more closely with our clients than traditional accountants. We also have a much smaller number of clients than normal and are selective in the clients that we act for. We want to get to know our clients businesses inside out, enabling us to easily identify problems and spot opportunities. We want to help improve profits and encourage growth.

Our mission is to always add value

Whatever we do for you, we will always carry out our work with the aim of adding value to your business. We run a very cost effective business by making the most of modern technology and homeworking, but we will never be the cheapest solution. John Ruskin defined value as follows:

"It's unwise to pay too much, but it's also unwise to pay too little. When you pay too much you lose a little money, that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing you bought it to do.

The common law of business balance prohibits paying a little and getting a lot. It can't be done. If you deal with the lowest bidder, it's well to add something for the risk you run. And if you do that, you will have enough money to pay for something better."

A unique feature of our service is fixed price agreements

Once we have established your needs we will give you a guaranteed fully inclusive price from the start. This will give you peace of mind and no surprise bills.

Background

businessVision are a small friendly firm of Chartered Accountants specialising in small and medium sized businesses. The practice was formed by Marc Lawson in 1985.

Our aim is to provide small and medium sized businesses with information and advice that goes beyond the traditional accountancy services of preparing accounts and tax returns.

businessVision benefit from having a stable number of long serving team members and a reputation in the South West as being a practice that is different from the typical accountancy practice, is small and friendly, but able to offer the type of services more commonly associated with large accountancy firms.

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Our philosophy is to provide a high value service by:

- Providing the best possible service
- Aiming to continually exceed our clients' expectations
- Making the time to really listen to the needs of our clients
- Suggesting ideas to improve profits and help the business grow
- Providing professional expertise in order to proactively identify opportunities and provide solutions
- Being an indispensable part of your business

This is achieved by:

- Maintaining a small portfolio of high quality clients
- Employing qualified individuals with a zest for business
- Investing in training and I.T.

We are members of the following professional bodies:

