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Business owners must track the crucial indicators

VIEWPOINT
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All business owners and managers need to understand what financial information is necessary to run their business.

These numbers talk and can tell a compelling story. Identifying the required information and then paying attention to it can help determine whether or not a company survives in today's business environment. There are four steps you can take to ensure that you are focused on the numbers that can make you as successful as possible.

The first step is to identify the critical success factors for your business so that they can be monitored on an ongoing basis. Critical success factors, also referred to as business drivers, key performance indicators, or other similar labels, will vary by company and by industry.

For example, in a manufacturing environment, you might look at the order backlog (by customer or by industry), or on-time performance, as well as other factors that indicate product quality, such as returns, warranty expense and rework.

In a retail environment, management might monitor other statistics such as sales per square foot, sales per employee, sales by day (this year versus last year), returns or inventory turns. These suggested indicators are not all-inclusive but rather ideas of what might be important. Each business owner must determine which factors are critical to his or her company.

Regardless of industry, every business owner or manager needs to review all levels of profitability, including gross margin, operating income and net income.

In addition, a review of all balance sheet accounts is vital in determining liquidity and the state of the business. You should ascertain how much cash is needed, what is acceptable for outstanding accounts receivable (both in amount and in age) and how the current assets should compare to the current liabilities (current ratio). These are just some of the factors that should jump start your thinking about the business drivers for your company.

Once you have determined your critical success factors, the second step is to use these factors to create your business plan. You will want to develop a budgeted profit and loss statement, balance sheet and cash flow statement, which will provide you with a road map as you move forward.

If some of your business drivers are based on various statistics or ratios, those same statistics or ratios should also be budgeted. It is important to create your plan following the same format that you will actually use to track the information, thereby easing the comparison of actual to plan. Further, as part of the planning process, you must also ensure that you have adequate systems in place for reporting accurate and valid data.

Once you have completed the first two steps, you will want to set up your record keeping and reporting system to capture and summarize the information you need. How do you need to departmentalize? Is it important to differentiate the departments where your supplies are being used? What are the logical segments of your business? Do you want to report revenue by product line? Once you have answered these questions and any others relevant to your particular situation, you can set up your accounts to track the data that you need.

The fourth step to help you focus on meaningful numbers is to define the report frequency and review the reports. For example, you might want to look at your cash balance on a daily basis, your operating drivers on a weekly basis, and your profit and loss statements and balance sheets on a monthly basis.

At minimum, on a monthly basis, you, as the business owner, should be reviewing a profit and loss statement that shows comparisons of actual versus budget versus last year for both the current month and year to date. As you begin to review these documents, consider consulting with your financial adviser, who can help you understand and interpret these reports.

These four steps for determining the information that you need and then using that information wisely contribute to a good system of internal control. However, there is one additional procedure that can help detect financial problems: paying attention to your monthly bank reconciliation.

Even if the business owner signs the checks, it is important for him or her to review the monthly bank reconciliations and statements on a timely basis to ensure that all activity is proper. This procedure is one key example of what you can do to make sure that your business has good internal controls.

In conclusion, think through what you need to know to run your business effectively. Plan for the future and then compare your actual performance to your plan. You must be aware of the financial state of your business at any given moment. Your numbers can talk to you, and you should listen to their story!

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