



Now is a Good Time for An Annual Business Checkup

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Many Los Angeles and Southern California business owners and entrepreneurs make sure they visit their doctor once a year for an annual checkup. This is the best way to uncover potential health problems early on, like high blood pressure or cholesterol, and treat them before they can lead to serious health issues.

But have you ever thought of conducting an annual checkup on your business? The same concept applies here: By taking the time once a year to perform an analysis of your company's finances and operations, you can gauge how healthy your company is and identify areas where performance improvement is needed. This may enable you to avoid more serious issues down the road that can lead to major business problems.

Areas of Focus

The end of the year is a good time to conduct an annual business checkup as you analyze how your business performed over the previous year and make plans for the year ahead. Here are eight areas to focus on as you conduct your annual business checkup:

- 1. Sales volume** — This is probably the simplest area of your business to monitor, since sales figures are easily obtainable and, subject to any reserves for returns, should be up to date and accurate. Are your sales rising, falling or holding steady? What about your market share? What factors (both internal and external) are affecting your sales and market share, and what can you do to impact them positively?
- 2. Profit margins** — These should also be fairly easy to monitor. Again, are your margins (both gross and net) higher, lower or about the same as they were a year ago? How do they compare to the projections you made at the beginning of the year and to industry averages? What steps can you take to improve your margins in the year ahead? A decrease in margins can be slow and insidious, and like the buildup of plaque in the arteries, difficult to reverse.
- 3. Overhead and operating costs** — One way to boost margins is to reduce your costs. Start with overhead items like your rent, utilities, telecom, and travel and entertainment expenses. It is easy for these to creep up gradually over time if you are not paying attention to them. Also take a look at your staffing and payroll to see if they are in line with overall sales and business activity. How does your cost structure compare to those of your competitors? Comparing your business to others in the same industry is a way to measure the relative health of the enterprise and identify areas needing attention.
- 4. Inventory management** — Is your inventory turnover ratio (or days in inventory) increasing or decreasing? Is there excessive inventory waste, spoilage or theft? Are you discounting slow-moving inventory to make room for higher-demand merchandise? And are you using just-in-time (JIT) inventory management techniques on your manufacturing floor so raw materials are delivered on an as-needed basis? Poor inventory management can have a significant adverse impact on your profitability.

5. Cash flow — Focus on shortening your cash flow cycle, or the time that elapses between when cash is paid out for inventory, raw materials, equipment and overhead and when your receivables are collected. Try to renegotiate more favorable terms with your vendors and customers, and talk to your bank about services that can accelerate the receipt of funds into your business. Cash is the lifeblood of small and medium businesses and poor cash flow is the business equivalent of having a stroke – it might not be immediately fatal but it can be debilitating and lead to restricted business function.

6. Receivables collections — Improving receivables collections is one of the best ways to boost your cash flow. Start by creating an accounts receivable aging report so you can see the payment status of all your customers at a glance. Don't hesitate to take action quickly on past-due accounts — the longer they stretch out, the greater the chance that they will never be collected.

7. Human resources — How is your staff turnover rate? What about staff morale? Are your employees working as productively as they can, and are people performing the jobs they are best suited for? Also, have your compensation and benefit plans kept pace with the demands of the marketplace? If not, you could be at risk of losing good employees to your competitors who will pay them more.

8. Client concentrations — This is another area that can sneak up on you if you are not paying close attention. You should not have too high a percentage of your sales and profits concentrated among just a few large clients — otherwise, you could be at significant risk should you lose one of them. As a general rule, try to avoid having 20-30 percent or more of your total revenue concentrated with just one client.

9. Balance Sheet — The balance sheet is a good indicator of the health of your business at a particular point in time. A review of key ratios and trends over time is an important part of the health checkup of the business.

Your Business General Practitioner

An outsourced CFO services provider can help you conduct your annual business checkup. In fact, you can think of an outsourced CFO as your company's general practitioner — a financial professional who can run all the necessary tests to diagnose the health of your business and prescribe treatments for any areas where there might be problems before they become acute.

With the right diagnostic tools, including benchmarking, and years of experience working with companies like yours, an outsourced CFO can prepare an analysis that will identify symptoms of existing or future problems in your business. He or she can then recommend and help implement solutions to the problems, thus helping ensure the ongoing good health of your business for years to come.

Concluding Thoughts

Many people visit their doctor once a year for an annual health checkup. The same concept applies to your business: By taking the time to perform an annual business checkup, you can gauge how healthy your company is and identify areas where performance improvement is needed. Choosing the right resource to help you do this objectively is like choosing the right doctor to monitor your personal health. An outsourced CFO can be a business life-saver and ensure the ongoing good health of your business for years to come.

About CFO Edge

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