

WE KNOW

# FINANCE

## MAXIMISE PROFITS AND MINIMISE RISK

QUICK GUIDE

### QUICK TIPS TO HELP YOUR BUSINESS

To improve the *cash position* of your business:

- Prepare regular cash flow forecasts.
- Generate cash through sales - but watch that you do not end up underselling your products or services.
- Only pay sales commission once payment is received.
- Negotiate extended terms of trade with suppliers.
- Take modest personal drawings or wages.
- Don't hide any problems from your bank. Tell your bank early if you need money to overcome a cash flow problem.

To improve the *profitability* of your business:

- Prepare financial statements on a regular basis and use them to analyse performance and benchmark your business against industry averages – your accountant can help you with this.
- Understand the profit you generate on each item of stock or service you provide.
- Concentrate on improving sales of your most profitable stocks or services.
- Don't discount prices on lower margin products and services.
- Don't discount your most profitable products or services unless the discount encourages increased sales that lead to at least the same profit.

To control costs:

- Identify the expenditures that are essential to keep your business running. Don't cut these costs.
- Look at costs carefully, but don't unnecessarily criticise every transaction.
- Conduct a review of the business' processes to see whether some expenses can be eliminated completely.
- Focus marketing expenditure towards direct response advertising (e.g. direct mails, emails and coupons).
- Review staffing arrangements.
- Work to retain good staff. Remember that replacing staff can be expensive.

To reduce your customers' debt:

- Keep in regular contact with customers, particularly customers who have outstanding debts.
- Prepare an aged debtors report.
- Negotiate periodic payment if that helps customers to clear overdue amounts.
- Before you sell to a customer on credit, perform a credit check and agree on proper commercial terms of trade.
- Encourage your customers to pay immediately by offering discounts on cash sale, for example.

To control stock:

- Keep the right amount of stock – too much or not enough stock can damage a business.

- Identify slow moving and dead stock and try to sell it. If you can't sell it, write it off and destroy it.
- Identify items you simply must never run out of.
- Negotiate deals with suppliers but avoid volume-based discounts.
- Tighten the buying of stock by knowing when to buy. To do this you will need to know the volume sales per item. Don't let discounts drive your buying decisions.

*For more in-depth information on stock control please refer to quick guide on Stock and Inventory control.*

To improve sales:

- Focus on the most profitable sales. Don't chase just any sales.
  - Create added value with your offers by for example, providing a gift or training.
  - Undertake companion selling and up-selling.
  - Use in-store signs to highlight the product of the week.
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