

Looking after the financial side of your business need not be a pain

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Wouldn't it be great to know exactly how healthy your business finances are? Or how rich you are going to be? Or whether you can afford to do Milan, Paris and London next season? Or how many garments you have to sell to cover all your costs?

Wouldn't it be nice to feel on top of your finances? To be able to take decisions based on sound, up-to-date information?

Many small businesses suffer from neglecting their financial planning and record keeping - because it seems to be a pain, or takes too long, or they are not sure where to start. So they take important decisions on things like price, payment terms, purchases, events, production, growth etc based on limited information without really understanding the full implications.

And, of course, there is the annual round of getting all the information ready for the accountant, answering all his/her questions and finally finding out how the business did. But by the time you know how the business did last year you are well into this year and the information is already out of date and too late to help you take this year's decisions.

But it needn't be a pain if you have a few simple tools in place to help you. And the benefits of being in control are enormous. Successful businesses all keep a close eye on their finances.

What to keep an eye on

The two most important things to keep an eye on are:

1. Profit/Loss (usually shortened to P&L or P/L)
2. Cash Flow

As a business grows you may also want to use The Balance Sheet to help you manage the business, but from a day-to-day, week-to-week, month-to-month point of view the P/L and Cash Flow are the ones to watch.

So every business needs a simple way to work out the Profit/Loss. If you have the right tools you can use them to do your planning (budgeting) and monitoring. To do this you need a simple way to record your sales and expenditure. The same tools can work out your VAT as well.

But don't rush out and buy an accounts package for your computer just yet. Accounts packages are great for established businesses that are big enough to use all the wonderful reports that they can produce. Small businesses, particularly start-ups, however, can manage perfectly well with something simple and easy to follow.

Cash flow is vital for any business. The world is full of failed companies that were profitable but that ran out of cash. How can this happen? Easy, just imagine the following scenario:

You are so excited about getting an order from a big High Street retailer that you give in to their demand to pay you 90 days after delivery. Now follow the sequence:

- You get your fabric and trims (which you pay for on arrival at the manufacturer)
- You pay your manufacturer a deposit and then pay the balance when the garments are ready
- You pay the delivery company within a couple of weeks
- As soon as you deliver the garments to the retailer you send them an invoice
- At this point you are showing a BIG PROFIT
- Also at this point your bank balance is VERY NEGATIVE
- If you can't sustain that negative balance until the retailer pays you – you could be bust!

This may be an extreme example but it can happen, and even if things aren't as extreme as this there is always the unexpected.

So a tool for watching your cash flow is important. This tool can be used to calculate the future cash balances, so you can decide whether or not you can accept the retailer's payment terms, or decide what you need to do to be able to accept them.

Planning tools

There are also a few planning tools that are very useful for a small business. For example, you need to be able to work out how many items you need to sell before you start making money – and how a price change would affect this. The same tool enables you to see how much you will make as sales increase.

Forecasting, budgeting and costing are also important aspects of planning.

Making it as pain-free as possible

So you need to use a few financial tools and techniques. And these need to be simple, easy to use and take up as little time as possible.

Basic systems based on excel spreadsheets are usually sufficient for a small business. Even simple paper-based systems can be used for the very small business. These tools have the benefit of being easy to understand and can be tailored to suit your specific needs.

As the business grows and the number of customers increases there will come a stage when an accounts package is more efficient. But if you jump in too soon with an accounts package you risk getting the wrong one, or getting one that is too sophisticated and difficult to use, or spending more money than you need to. The most efficient accounts packages can be integrated into your sales processing system as well – so you don't have to enter information more than once.

The best tools are ones that help you understand what is going on behind the figures.

There isn't enough time or space to go into the details about the tools here but if you would like to know more why not sign up for Fashion Capital's 'Be Business Ready for 2011' workshops (www.fashioncapital.co.uk – learning/seminars).

If you are looking for more detailed one-to-one help then please contact me on nigel@nigelrust.co.uk.