

QUARTERLY NEWSLETTER

July 2008



BUSINESS PERFORMANCE REVIEW

As we move into the new financial year, we should be working against a new operational plan. There are two fundamental areas that need to be constantly reviewed and managed:-

1. Monthly Performance Review

At the end of each month, the business should produce a range of operational performance data that can be measured against the plan. This should be reviewed with the management team.

Tracking sales is obviously a prime indicator of performance in the market. It is also useful to break down sales into different product groups and / or sales territories.

This is particularly critical when a new product has been added to the range or to measure the success of a specific promotion or sales activity. Territory level allows the measurement of sales staff performance. Measuring gross margin - the difference between revenue and the direct cost of that revenue - is equally important. This enables a review of which products and territories are producing the best gross profits.

Where product margins are down, look to increasing prices or reducing discounts and, if that is not possible, try and negotiate a better deal with the supplier.

Territory variance may be due to product mix or to salesmen that are over generous with the businesses discount structure.

The monthly cost of running the business also needs to be tracked and, where appropriate, accruals should be made for known upcoming "lumpy" expenses. Each expense line at variance with the plan should be investigated and remedial action planned.

Remember, every cost dollar saved goes straight to profit - only the gross profit from any sales increase goes to the bottom line.

Working capital also needs to be tightly managed.

Talk regularly with your customers to ensure you are on the top of their payment schedule and pursue overdue monies firmly – you are entitled to it!!

Control the inward flow of stock to optimise the balance between stock and customer service levels. Review minimum order quantities and supplier discounts and try to negotiate longer payment terms.

It is the management control of business activity that differentiates good businesses from the ones that are not as successful.

2. Action to Manage Change

Since the plan and budget were produced there have been significant changes in costs – particularly fuel, freight and interest. Counter measures need to be implemented if profit forecasts are to be maintained.

Sales territory planning becomes increasingly important to minimise kilometres per call and keep fuel costs down. Comparison between individual fuel cost also helps to eliminate fuel "leakage" to spouse vehicles and lawnmowers!!

Freight costs have similarly increased and purchasing and delivery patterns should be examined for efficiency savings.

Consider whether or not you charge for your own deliveries and – if so – when did you last adjust the charge to reflect the cost increases?

Interest rates cannot be easily influenced, but charges can be controlled by minimising the overdraft through better cash management. Tell customers you are tighten up on collections and negotiate extended payment terms with suppliers – some will agree.

Don't be afraid to take positive action!!

Remember:-

“Who Dares Wins”

**To discuss business performance management
– call Gordon Cadzow at due North**