



The Quick and the Dead – Proper Financial Management

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The speed at which businesses react to financial changes can be the difference between a high profit company and a below average performer. The poor performers fail to achieve their full potential because they lack the financial management to realize when these changes happen. They typically view their bank balance as their measure of success and ultimate financial performance. This is akin to putting the cart before the horse as cash comes from profitability and the use of balance sheet funds. This failure to maintain a true financial picture and subsequent lack of control via proper systems often leaves companies asking, "Where did my money go?" at the end of the year. It is even commonplace that sales can be increasing from year-to-year while cash flow is declining.

In contrast, properly operating companies not only maintain a true picture of their business, but they systematically review their financial statements. On a monthly basis, this involves reconciling both their Profit and Loss and their Balance Sheet against their sub ledger reports to insure financial integrity. They then compare their actual numbers with past comparatives and targeted goals. This allows them to react quicker than their competitors to business changes.

At least on a semi-annual basis, high profit companies compare their figures with their peers. This allows them to see if they are missing opportunities and to take action fast. They think outside the box and realize that unless they understand how similar retailers are prospering they cannot see where and how to improve themselves. To do this they use a variety of sources: Profit Maximization Analysis by PROFIT *consulting*, PROFIT *groups*, and various seminars with financial disclosure. One idea, properly executed, can easily make the difference of two points on their bottom line!

The most successful retailers take financial management a step further; they prepare solid financial projections for the future. They chart a path using pro forma financial statements. This forecast becomes their blueprint for success as it details their budgeted numbers and projects their Profit and Loss, Balance Sheet, and Cash Flow statements. It specifies the actions that they need to execute to achieve their numbers. If the business misses a target in any area, they know and can adapt – fast.

To set proper projections and budgets, the owners of these businesses need a complete understanding of how the best stores in the industry are operating under a variety of metrics and how it applies to their accounting systems. The following items need to be analyzed in detail to create proper pro forma financial statements:

- Sales – Close Ratio, Average Sale, Number of Opportunities
- Gross Margin
- GMROI (Gross Margin Return on Investment)
- Operating Ratios – Payroll, Administration, Occupancy, Warehouse and Delivery, Advertising,
- Selling, Finance, Customer Service
- Inventory to Sales Percentage



- Fixed Assets and Depreciation
- Accounts Payable to Inventory
- Receivables and Customer Deposits
- Loans and Interest
- Cash Injections and Draws
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With these metrics established, the company can see what they must do to achieve results in their environment. They know what their Profit and Loss, Balance Sheet, and Cash Flow should look like and how to achieve their objectives.

The best companies establish these projections and review them periodically. This enables them to react quickly to areas of weakness and reward areas of strength. They can focus on an area that is underperforming before it becomes a disaster. For example: one company was meeting all of its sales numbers on written and delivered, but the gross margin and GMROI were underachieving. This would have caused this company to miss its targeted cash flow and profitability. They realized this at the end of their quarter and took action. They found that the problem could be corrected by improving the speed of their delivery and implementing a proper inventory aging system. They reacted fast and succeeded in reaching their goals.

Champion retailers are fast!

Quick reacting businesses are the future of retail and will prosper. It is the only way they can beat their competition and keep their owners, employees, and customers happy. Stagnant businesses will eventually die.

PROFIT *consulting* provides a program called SMART *finance* to a select group of furniture retailers. Feel free to contact us at info@profitconsulting.net for assistance with your financial development.