

Five Steps TO A HEALTHIER BUSINESS

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It is January 2013 and the New Year begins with a lot of uncertainties. Nowhere are the fears of the future more prevalent than in the small business sector. Not only must we navigate the normal problems associated with being in business, we now have the added complications caused by our own Federal Government. Coming in 2013 are a litany of mandates, regulations, and taxes.

I suppose there is nothing that can be done to mitigate this Federal over-reach. Our only line of defense is to be among the best run and the best-organized businesses in the country. That means going back to the basics and cleaning up our companies from the ground up. There is no margin for error. We could study the teachings of the Ivy League business schools but they are proving that their teaching of Keynesian Economics plainly doesn't work. Spending yourself into prosperity is insanity. No, I tend to trust "old school" economics with the spend-less-than-you-make approach to business. It has worked for me for more than 40 years and I believe it to be the only way to survive and prosper in any business, large or small. It might be a good lesson for the U.S. government as well.

BUDGETING

No business investor should start a business without a strong business plan. Not just an idea: I mean a written out, on paper, well vetted and documented plan. For a business to continue to survive and prosper, a new plan must be developed for each new year. I refer to this as an annual budget. No, this is not a goal setting device. It is a forecast of things to come. Projected income, projected expenses, and projected profits.

Hard work? Yes, developing a proper annual forecast of your business performance takes many hours to properly think through the challenges of the coming year. Don't expect to anticipate all the ups and downs that you will face. That would be humanly impossible. You can, however, project based on historical data using the actual performance of prior years. By using tools like Excel Spreadsheets, your forecasting efforts can actually become an enjoyable and interesting project.

Once completed, don't put your project on the shelf, use it. A budget is a tool and should be compared to your actual month end close each month of the year. This will give you confidence in your work and future budgets. You will come to trust your forecasts and will manage and spend by your predictions.

BANKING

A strong relationship with a local bank is an absolute must for any business to survive the hard times and future growth cycles. This aspect of business is simple if you follow some of the basic rules.

First, select a banker that has some measure of authority (I prefer the community banks). There is no sanity in wasting your time with a bank officer that has no authority and must ask permission to take a coffee break.

Second, begin your banking relationship prior to your need to borrow money. Anticipate what a banker must have to measure your credit worthiness. You should present your business plan if you are a new business. If you are an established business you should present both prior and current years' profit and loss statements and a current balance sheet along with three prior years' tax returns, both personal and business. Be prepared to describe your business strategy, display your coming year's forecast (this is where your budgeting efforts will really pay off) and offer an onsite visit. Your goal is to impress your bank officer with your business capability. If you know that a banker will request this type of information, provide it without being asked.

Third and most important, begin to make friends. You must have a congenial working relationship with your banker. Think of it as a long-term investment. Who knows, you may just enjoy your new friend.

The final banking golden rule is never, never, never rely on just one banker. I always recommend developing a secondary relationship as a fallback position. Doing this is simple. You already have the information prepared for the primary banker. Share this with your "lady in waiting." As you prepare updates for your primary banker (no less than quarterly) take the time to share this information with your secondary bank. You may develop a new friendship. This simple rule will keep you from being held hostage by your primary bank.

ACCOUNTS RECEIVABLE

Many businesses fail because they do not establish a regimen for their clients of paying their bills on time. It is you who must dictate the ground rules of how you will conduct business. Never allow a customer's balance to creep into the delinquent column on your aged receivables. Over 30 days, over 60 days (maximum) is the very most you can allow. It is typical for larger customers to ride (slow pay) their vendors. They will use your money to operate their businesses if you let them. This is a customer that you cannot afford. There is no customer that is so large that you allow them to put you out of business.

I often hear, "well, I know they will pay what they owe." or "they have the money but that is just the way they do business." Keep in mind you are not a bank. Allowing a customer to ride your receivables puts great strain on you making it impossible to sustain your business. You will find yourself focusing more on collections and less on your intended target of growing your business. The true costs are enormous. It will destroy your banking relationships and cause you to be unable to pay your creditors on time. What customer is worth the destruction of your own business? Remember, not all customers are good customers. The time you spend on collections could be better spent on finding new clients that will pay on time.

EMPLOYEE DEADWOOD

One of the toughest jobs a business manager must do is to continually evaluate his employees' performance. I once worked for a man that said, "You must feed the lions and kill the dogs." What he meant was that no business can survive by perpetuating a staff of mediocre to poor employees. If an employee is not pulling the wagon, he must be terminated. If they are not pulling the wagon, they are riding on it and are increasing the load for everyone else.

I have experienced many employee situations but the most difficult is to fire an employee that I considered a friend. But then I realized that if he were really my friend, he would not have put me in a position to have to make such an unpleasant decision. Ultimately, your business will not be strong until your employee base is built entirely of "super stars" or potential super stars. This is possible only if you hold the performance bar high enough. It is your expectations that will create that atmosphere. By eliminating the "deadwood" you will have fewer employees but will have the available payroll dollars to reward the superstars with higher earnings. Then and only then will your company be positioned to grow.

OUTSOURCING

One way to make your company's performance more predictable is through outsourcing. This will enable you to support fewer employees and eliminate many of the future headaches that are facing us with Obama Care and other regulations and taxes that are impacting every small business. An outsource vendor can provide services equal to or superior to those of your own staff and at a fraction of the cost. If the vendor doesn't meet your expectations, there is no emotion, just fire them and replace them with a new one. Basic business functions such as accounting, sales management, routine clerical functions, IT or computer support, public relations, building maintenance, fleet management or transportation specialists, legal support, investment planning, etc. can reduce your payroll burden and staffing issues. Outsourcing will greatly help you to focus on your business's primary mission, your clients.

Too expensive to outsource, you say? Just compare it with the true cost of your payroll to provide those same services. You may find that outsourcing is a real time and money saver. It is worth exploring with an open mind.

Well, there you have it, five basic steps for a small business to survive the challenges of the future. Oh yes. You might throw in a bit of originality. "Business as usual" will not get it in the future. You must be resourceful, stay abreast of the new demands of the consumer. Your customer base will change as you move into the future and with it you will face new demands. Be prepared to meet those demands or be prepared to join the buggy whip industry with extinction. Your forecasting efforts should include these new business challenges.

