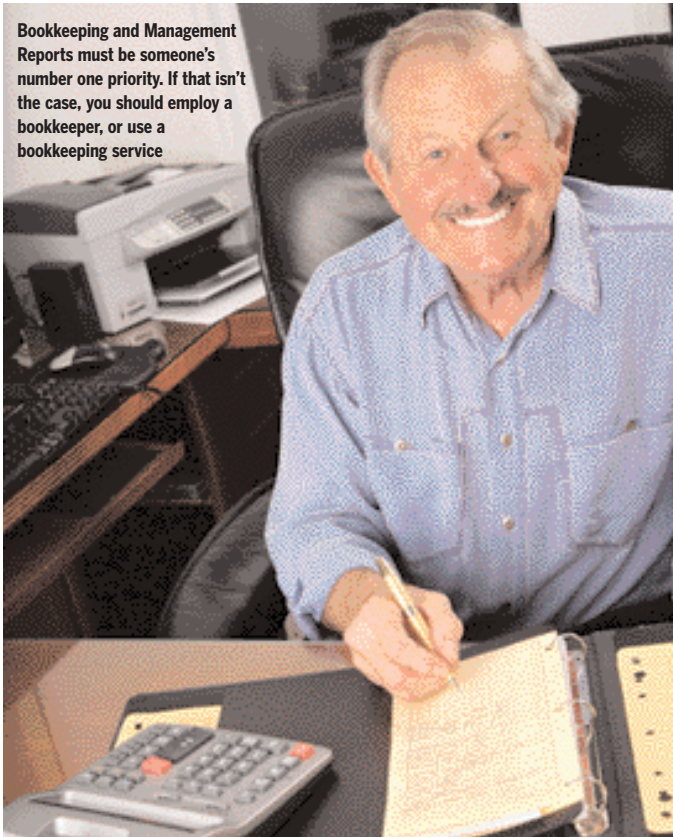


FINANCIAL MANAGEMENT

Making a profit is important but before you can pay the bills, you need cash in the bank. **Simon Croft** explains why good financial controls are more important than ever



Bookkeeping and Management Reports must be someone's number one priority. If that isn't the case, you should employ a bookkeeper, or use a bookkeeping service

There's a good chance, if you're running a CI business today, that you got started because you were interested in the activities of system design and installation, more than the mechanics of how the business itself runs. Innovations in AV or lighting may excite you but financial forecast leave you a little bit cold.

That was pretty much me, if I'm honest. For instance, I understand every aspect of magazine production from commissioning the writers and selling the ads, through to printing, packing and delivery. But what I discovered the hard way is that kind of specialist knowledge is not enough on its own to run a successful business.

At this point, you may be thinking 'yeah but I've been in business for xx years, so I think I've got the hang of it'. Welcome to the club: I've either been self-employed or a company director for more than 20 years. Unfortunately, a certain amount of complacency can come with that experience and it is too easy to fall into the trap of applying yesterday's solutions to today's situations.

Unless you are as rigorous about the running of your business as you are about the services you offer to your customers, there is a good chance that you will face a serious cash crisis sooner or later. And

unless you have certain management controls in place, you may not even realise the magnitude of the problem until it is too late.

(If you're searching for a visual to go with this, just imagine those minutes after the Titanic has struck the iceberg. While you're kicking bits of ice round the deck, the designer is carefully calculating how much

'It is too easy to fall into the trap of applying yesterday's solutions to today's situations'

longer the vessel can stay afloat. Ignorance is bliss – but not for very long.)

On the positive side of the coin, if you put some simple systems in place, you can very likely increase the amount of cash in your business and enhance your ability to accurately predict your future position. Sound financial management can make your business more stable and

can help it to thrive in market conditions where others cannot operate.

Hopefully, that thought is sufficient to keep you attention for the rest of this article.

Plans, forecasts and reports

How many of us have created a viable business plan – complete with detailed Profit & Loss and Cashflow forecasts for years to come – and then failed to track the actual performance of the business against the plan?

My guess is that a number of readers have been guilty of quietly filing away the business plan as soon as the bank manager has approved a loan and then not consulted again until the year-end. This is very bad practice and the bigger your business becomes, the more dangerous inadequate financial management becomes.

A closely related sin is to look at the forecast at regular intervals but not to update it with the actual figures. Suffice to say, in a short space of time, the 'map' and the 'territory' may look nothing like each other. In other words, the forecast continues to look rosy, even though the business is sliding down the tubes!

For this reason, it is absolutely vital that bookkeeping is kept up to date and that the forecast is updated to reflect as closely as possible the current position of the company. However, this information is only of value if it is analysed, disseminated and acted upon.

Even company directors can find it difficult to assimilate the underlying message from trial balances and the like – especially if they came on board because of technical skills that have nothing to do with the world of accountancy.

A common problem in small businesses is that bookkeeping is secondary role for someone who is already busy. This tends to mean that bookkeeping slows up as trading increases, meaning that information about the state of the company takes ever longer to arrive. Typically Management Reports are regarded as an expendable luxury on the grounds that they take 'too much time'.

(If you'd like a visual for this one, imagine that you are in a car. Just as the car is really picking up speed, you decide to watch your progress out of the back window, rather than reading the road ahead.)

Management Reports have an important role to play in communicating the current state of play and these should contain a summary that is easy for anyone to digest. Observations such as "the value of stock held by the company is increasing, so it is important to avoid ordering items that are not allocated

to a specific installation", speak far more clearly than pages of figures.

In case the underlying point isn't clear, the financial wellbeing of the company is not the sole responsibility of the Financial Director. Everyone in the company is responsible for ensuring that any targets under their jurisdiction – whether expenditure or revenue – are met, or that any significant variations from the forecasts are flagged up and dealt with.

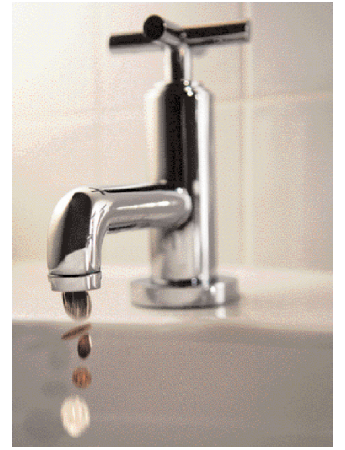
Equally, bookkeeping and the production of Management Reports must be someone's number one priority. If that isn't the case right now, you should employ a bookkeeper, or use a specialist bookkeeping service.

Credit control

Assuming that costs are under control and that your business is fundamentally profitable, the next thing to look at is how much money you are owed – money that should be in your bank account, not your client's. It's worth bearing in mind that if your business is partly funded by a loan, you're effectively paying interest on the money your clients are using.

It is also worth considering that the people who mess you around over payments are also those most likely to experience difficulty in paying you – and the longer the situation goes on, the greater the risk that you will never get paid. If you want to know what happens to organisations that extend credit to bad risks, look at the share prices of banks.

(At this point, I am assuming that when you take work on, you enter into formal written agreements in which the schedule of payments is made perfectly clear, along with all your other Terms & Conditions. If that isn't the case, your business is horribly at risk. This area is beyond the scope of this article but the organisation best equipped to help is



CEDIA. It now has standardised paperwork templates for its members and covers the subjects of cashflow and pro-formas in courses including Introduction to the CI Business.)

Deciding the best way to go about bringing your debtors under control can be an agonising business because there are always the twin fears that an outside agency will cream off your profit as commission and/or recover the money so brutally that your customers are alienated.

That can happen if you 'factor' your invoices – ie you transfer the invoices to a debt collecting agency which pays you most of the money upfront, then makes their money by recovering the whole amount as quickly as possible. It is important to understand that once the factor has paid you, the risk is all theirs, so it is vital that they collect. Hence, factors can be heavy handed.

Having tried almost all methods of credit control, I can tell you that the worst possible solution is to do it yourself. Firstly, you're already busy, so you'll probably let the accounts slide out of control, meaning you'll only deal with the situation when the payment is well overdue. Secondly, because it will be you on the phone, it will be your personal relationship with the client that gets damaged. Unless you're prepared to engage a fulltime credit controller, I'd forget this route.

The variation I would also caution against is using one of those big solicitors that send out a standard letter threatening impending court action. Although these letters are cheap to issue, my experience has been that customers generally react in one of two ways. If they are honest, they are extremely offended – and if they are dishonest, they simply ignore you. The next thing you know. The situation has spi-

Cash rich but bust

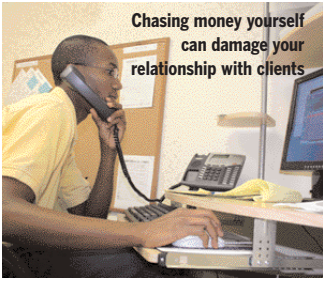
The thing that kills most businesses isn't lack of profitability, it's lack of cash. Hence, landing that 'contract of a lifetime' can kill your business if your lines of credit can't sustain the outlay required and/or inadequate financial management means your clients are not paying soon enough.

However, there is a paradoxical variation on this situation that can prove equally fatal. This is a real-life story of a company that improved its cash flow but failed to realise that it was no longer making a profit.

The company – an equipment hire and sales operation – had been trading successfully for around 25 years. During a period of tough trading conditions, it quite rightly took on a new credit controller.

Energetic and aggressive, she soon set about whipping the customers into line. As many of these had been taking 90 days or more to pay, an impressive amount of money started to flow into the company's current account.

Unfortunately, the directors failed to notice that in the same time-frame the company had slashed margins too low to sustain its operating costs. Once all the customers had made good all their arrears, cash slowed to a trickle and the company went into liquidation, unable to pay its suppliers.



called out of control and you are taking them to court, with the result that even if you eventually get paid, all the profit has gone out of the window.

The only solution I found to be effective and reliable was to use a credit control agency that would manage the process all the way down the line. However, I soon discovered that some of these agencies are astronomically expensive, so it was a relief when an accountant recommended I try Credit Control Solutions.

“We normally charge for our services on a ‘per account’ basis,” explains CCS founder Jamie O’Connell. “For larger companies with several hundred accounts, we would offer our services on a fixed-cost basis.”

‘Collecting money is similar to the art of selling’

O’Connell estimates that this could equate to half the cost of employing an in-house credit controller but for small businesses, the news is perhaps even better. “For a customer with 20 accounts per month, using Sage Line 50 software, our typical charges would be £10.00 to £12.00 per account, per month.

“We interface with our clients in a number of ways,” O’Connell explains. “In the main, we are able to set-up data export routines from most accounts software packages on the market and simply import this data into our own credit management software.

In most cases, we can also establish a remote connection so that we are able to export their data ourselves,” O’Connell adds. “This means that we are completely self sufficient and do not have to rely on our customer to send any information to us.”

My biggest reservation before engaging CCS was that they would be aggressive to my customers. It turned out not to be a problem. “We appreciate that our success is purely down to the ‘good relationship’ that we build with our customers’ customers,” O’Connell considers. “Collecting money is similar to the art of selling, if we fail to build a good relationship we will not succeed in improving collections and ultimately we will lose customers.” He claims that CCS has never lost a customer through the relationship going sour.

“We agree with our customer beforehand precisely what our approach will be, ie content of standard letters, timing of standard letters, whether or not we are to ver-

ify invoices for payment before they fall due for payment etc,” O’Connell adds. “All of this is enshrined within a credit control process and our staff will undertake credit control for that particular customer in strict accordance with that process. Adherence to the process is monitored by our credit control manager.”

In the case of the service CCS provided for my company, it was agreed that a letter be sent before money was due, reminding customers that our terms gave them 14 days to dispute any invoice.

As a result, the incidence of disputed invoices declined dramatically and it simplified the situation when accounts fell overdue because it was then the payment that was in contention, not the service provided. However, there were still times when the client wouldn’t pay. O’Connell is

Can’t pay, won’t pay

As anyone who has ever tinkered with a cashflow forecast knows, one way to instantly improve your position is to take longer to pay your suppliers. If you can negotiate better payment terms with your supplier, then good luck to you. Constantly exceeding the agreed terms is not a good idea, however.

For one thing, your supplier may rescind your credit completely and insist on cash. If it’s a major supplier, the effect on your cashflow could be disastrous. And if you persistently default, or get court orders against you, you’ll soon find that no one is prepared to give you credit.

But the damage to inflict on the relationship with your supplier can be more subtle. Consider this scenario. You desperately need certain items of

at pains to explain that CCS doesn’t simply ‘take people to court’.

“If a customer fails to pay without a valid reason, we will recommend to our customer that

they allow us to take debt collection action,” he explains. “The important thing to mention here is this; although we may recommend debt collection action to our customer –

equipment delivered tomorrow, so that you can finish a job. So does another installer. The supplier only has enough stock to meet one of the two orders. In that situation, would you rather be your supplier’s best paying customer, or one of the worst? I think we both know which customer will get the equipment.

If you are careless or unlucky in business, you may find yourself in a situation where you simply cannot pay - and you are not able to return the good either. Your only option is set up a meeting with your supplier, explain your situation and suggest a viable schedule of payments to clear the debt.

‘Ducking and diving’ is not the solution. If you stop communicating with your creditors, they may panic and seek to wind up your company as a way of recovering at least some of what they are owed.

eg county court proceedings – it is up to our customer to say ‘yes’ or ‘no’ to our recommendation.” **RSE**

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