

Strategies for Success—Billings Business News

When in doubt, Look at the numbers!

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We have survived the first quarter of 2010! Yahoo!! However, as we reflect on where we are as we begin the second quarter of 2010, one of the most significant business actions that you should be taking is conducting a good analysis of your numbers. How are sales? How are expenses? Where is your business in comparison to last year at this time? Where are you relative to your peer group? How are labor costs—are they equal to last year, increasing, or decreasing?

In the past several months, we have met with many companies that either have recognized or realized a significant challenge in their operations, or have decided that although the business “seems” to be doing well, there is never any money left over at the end of the month.

Now, as professional consultants, we like to perform a diagnosis and analysis of your operation to see what intelligence we might be able to divine. We call this due diligence. Due diligence is the process of “turning over rocks” to see what might be under the rock. In this case, it is asking a plethora of tough, pointed questions about every number in your finances. Our intent is to gather as much data and information as we can to provide you with the best consultation possible.

QuickBooks seems to be the accounting package of choice for many small businesses. Set up correctly and used correctly, QuickBooks provides a business owner with a wealth of information about the fiscal health of his/her business. However, if the system is not set up correctly, or data is just inputted, we end up with the old saw from Computer Science, “Garbage in- Garbage Out!” The truth of the matter is that QuickBooks is a very good program and extremely powerful, when placed in the hands of those who truly know what is going on. Conversely, someone who just puts in numbers and expects the computer program to tell them something magical will be seriously disappointed.

If you are using QuickBooks, do you really know what is in the system? Really know? If the answer is NO, or “I am not sure”, then perhaps one way to move forward and gain a better understanding of your business is to have a healthy, rich and robust discussion with an accountant. Now, this accountant could be the accountant that prepares your taxes, or he or she could be someone who specializes in business accounting. Accountants are just like Doctors, Lawyers, Engineers, mechanics--- all have had the same basic education, however, most professionals specialize in some facet of the profession. If you break your neck, would you go see a podiatrist, or a neurologist? Same thing in accounting—finding a business accountant who understands your business will pay large dividends in increasing your business knowledge as well as identifying areas where additional management attention needs to be placed.

Most business owners do not like paperwork. Even more daunting is a careful analysis of the company’s financial records to monitor the health of the business. Many times, we hear, “We just give it to our accountant and he/she prepares our taxes”. OK, someone has done your taxes, but what about all of the other information that your financials are able to give you. Who gives you that information if you

do not engage the services of a certified public accountant (CPA)? Sadly, the answer most times is nobody.

We strongly suggest that you meet with your accountant quarterly, if not monthly, to monitor the quality of your accounting data and to assess how your business is performing, financially. This is most important when a new business is just beginning operation; however, it is equally important for a long-standing, existing business. The fee that the accountant charges, probably a couple of hours of time, is money well spent in the overall scheme of the business. Why? My rationale is this—the 1-2 hours that your accountant spends working with you and your business books will identify areas which you may not have recognized, identify changing marketplace conditions, identify areas where expenses may be “getting out of control” or identify issues with cash flow. Knowing that you need to take some type of corrective action now, may result in a better, more profitable quarter, next quarter. If you elect not to visit the accountant and do not know about a potential area of concern, the area of concern may become so significant that you may not be able to recover, i.e., maintain profitability during the remaining part of the year.

We worked with a client recently that is in a business where profit margins are razor thin, about 1.6%. Sadly, the firm had lost money last year and the owner was justifiably concerned. As we analyzed the firm’s books, we found that expenses had increased about 2% and sales had decreased by 1%. Now, that may not seem significant, however, this business is a multi-million dollar concern where every dollar counts. The owner did not realize that just a small variation in either expenses or sales could dramatically affect profit and cash flow. We provided several ideas, which, should yield a profitable 2010. Interestingly, the client did concede that he was going to work much more closely with his CPA to monitor these changes on a regular basis to preclude having another negative year.

Your accountant is your best friend in business. Yes, he/she, like attorneys, consultants and a host of other professionals cost money, but we recommend that you view this as an investment in your education and the future success of your business. The fees that you pay for help are inconsequential when you receive advice that maintains the profitability of your business. Although you may use your accountant to just prepare your taxes, an accountant can (and should) provide much more in-depth and detailed services that help you manage your business. Do not be afraid to visit with your accountant and tell he/she what is going on in your business and where you need help. It is much better to make some adjustments now, in April then to wait until November (or the following February) and realize that you had a problem all along, but were unable to correct the operational deficiency.

Pull Quote:

Michael D. Morrison, CPA and Business Advisor with Curtis, Sommers and Associates PLLC,

...”My role is to help business owners understand what the data is really telling them and provide guidance relative to making informed decisions.”