How Healthy is Your Business?

PROSPERITY PLUS MANAGEMENT CONSULTING, INC.

By Jim Kahrs

The Key Steps to a Proper Assessment

Take Away Points:

- WHAT ARE THE BASIC STEPS IN A PROPER BUSINESS ASSESSMENT
- IDENTIFYING PROBLEM AREAS UP FRONT
- HOW TO SHORE UP WEAK AREAS OF THE BUSINESS

As we move beyond the first quarter many business owners are reviewing their financial performance from the prior year as they prepare the documents required for annual tax filings. This annual ritual often leaves business owners wondering why their results were not as strong as they anticipated or hoped they would be. Why did we not achieve the growth we wanted? Why was the net profit lower than it should have been? If we made money why isn't there more cash in the bank?

These are just a few of the questions I hear this time of year. The problem with the post-year reflection is that it often turns into a "Monday morning quarterback" situation where you look at the results after the game is completed leaving you no time to affect any change. That said, I'd like to outline some strategies for assessing the overall health of your business now.

Let's start by considering what it really means to assess the health of the business.

According to the *Oxford Dictionary*, the definition of the word assess is "to evaluate or estimate the nature, value, or quality of something." Your assessment will involve evaluating the value and quality of your business as a whole and in individual areas. In doing an assessment there is one major concept that should be pointed out.

L. Ron Hubbard outlines a concept referred to as *"Look Don't Listen"* in a policy letter that is part of the Hubbard® Management System. In this policy letter Mr. Hubbard outlines how dangerous it is to listen to what employees and to what others have to say about what is happening in the business without actually looking for ones' self. Of course your assessment will involve speaking with and gathering data from employees, vendors, customers and others but you must be careful to dig deep enough to see for your self what is going on and never simply take someone's word.

For example, when evaluating your inventory, it is easy to let the warehouse manager tell you that everything is on order and that there is very little obsolete inventory. But leaving it there would be simply listening.

"Remember 'confront'. Don't let your balance sheet go on auto pilot."

I would suggest that you have the manager provide you with a detailed report showing exactly what items in the inventory have been on hand for more than a year. This would be looking and will undoubtedly provide you with much better data than the simple answer given by the warehouse manager.

Confront is another concept that's given a great deal of attention in the Hubbard system. It means "to look at without flinching or avoiding." I can tell you from experience, the areas that do the most damage to a business are the ones that the owners or managers have been too nervous to look closely at or the areas that have been avoided. This comes down to an inability or unwillingness to confront the area. Perhaps you've avoided looking closely at the sales team's activity level because deep down you know they aren't doing what they should and you aren't sure how to handle it. In this example, there is a lack of confront for the sales area and most likely sub-par results from the sales team.

Confronting problem areas of the business can be very difficult but it is critical to the assessment process and a requirement for any change to take place. Any area that is ignored (not confronted) will not improve.

So how do you apply these concepts of "Look Don't Listen" and confronting? You set up a process for assessing and evaluating the key areas of your business. Where you start and what you cover will be dictated by the issues you're having. I suggest starting with the areas that are giving you the most trouble or the areas that are least successful for you.

<u>Finances</u>

It is critical to assess the health of your business from a financial view on a regular basis. Included with this would be a monthly review of your income statement and balance sheet. I've found many business owners do not review these critical documents on a monthly basis. Coincidentally, these are usually the organizations that are not making the net profit they want, some are even losing money.

When looking at the income statement you need to assess the revenues of the business; are they growing or shrinking; are you getting good performance from all revenue categories or are some falling short (i.e. equipment sales or service). You must also look at the gross profit margins by category. Which products or services are most profitable and which are least profitable. There are too many companies out there that don't know their gross profit margins and thus don't have plans for improving their profitability.

Next you must look closely at EVERY expense line of the income statement. As the saying goes - "the devil is in the details." Without a monthly review of the expenses it is difficult if not impossible to achieve the net profit most desire. I've had many occasions where a business owner has "discovered" expenses he or she had no idea existed. Once they hit the radar they can be handled. If you use the income statement as a tool to assess your business on a monthly basis you'll be able to make the changes necessary to drive a higher net income.

The balance sheet is the other key document that should be reviewed monthly. It is important to review the value of key assets like cash, accounts receivable and inventory regularly. You need to know if the balances are increasing or decreasing and why. The same holds true for key liability accounts like accounts payable, lines of credit, loans, deferred service, etc. If you don't pay attention to these you could have a business that is diminishing in value over time. Along with creating a healthy net income you want to build positive equity in the business by properly managing your assets and liabilities.

Remember confront! Don't let your balance sheet go on auto pilot.

<u>Staff</u>

Another key area to assess on a regular basis is your staff. There are three aspects of your staff that should be considered; productivity/ results, skills and training. Have you looked at the overall productivity and results created by each of your employees?

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Do they have production measures in place? For example, how many collection calls did your accounts receivable person make last month? How much of the accounts receivable is aged past 60 days? These would be some key measures of production and results. Next you want to honestly assess the skill level of all employees. What are their strengths and weaknesses? This is another area that takes some confront. You need to really be willing to look closely and brush aside bias and rumor. Hand-in-hand with skills assessment is an assessment of the training level of employees. Have they been formally trained in the areas that will lead them to success? We tend to focus on training technicians and sales people but forget about the admin team. If you want to improve your overall results look at where you can train your people to be more effective.

Customers

Assessing your customers is a very important piece of the puzzle. Your customer base can and should be assessed as a whole and individually. Every account should have a profitability analysis done to see if the business is making money in the relationship. Too often there are customers that cost us money and we don't know it. With a proper assessment you can decide how to handle those unprofitable accounts. Along with the financial profitability it is important to assess the emotional profitability of your customer base. Do you have any customers that are so difficult to deal with that they take a toll on your staff? Though you might make some money from these accounts it might be worth assessing their overall value and deciding if they're a good fit. If not there's nothing wrong with letting them be a thorn in your competitor's side.

In assessing your customers you want to look closely at where you are most successful. Are there patterns? Are you strong in certain vertical markets or certain geographic markets? If so find ways to expand on this success. Also look at the flip side, are they markets that you struggle with? Withdrawing from a "bad" market could be a great strategy for success.

Competition

A full assessment of the business would include assessing your competition. Who do you lose to and why? Who to you beat regularly and why? I can assure you that it isn't coincidence. There are patterns to your wins and losses. When you discover these patterns you can greatly increase your success rate. In assessing the competition you'll need data. Make sure that your sales team is collecting everything they can on all competitors; brochures, proposals, etc. Keep these in organized files for reference.

As I mentioned earlier, this is not an exhaustive list. My hope is that by going over a couple of key examples I can help you get the wheels turning. If you are not achieving your goals or getting the results you want there are exact reasons why. Doing a thorough assessment of your business will help you uncover these reasons. Once they are uncovered you must take the next step and implement plans that will correct any situation found. If you can set aside the time to do this on a monthly basis and address one or two issues a month you'll be on a very fast track to improvement. It will take some time and some confront to do it but the results will be well worth it.

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About the Author, About the Company

Jim Kahrs is the Founder and President of Prosperity Plus Management Consulting, Inc., founded in 2001.

Prosperity Plus helps organizations build revenue and profitability while improving organization structure using the Hubbard® Management System. We provide consulting and seminars designed to improve everything from cash flow and profits to organization and personnel issues to sales and marketing communications. Our comprehensive approach to business consulting focuses on teaching management how to get a better handle on the business.

To learn more about our products and services, call 631-382-7762, or visit us online at www.prosperityplus.com

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