Innovative CFO Solutions

Tips for Managing In Turbulent Times

Tips Issue 2

Creating a financial plan for 2009 is essential. This issue discusses the first step in the process of creating that plan.



Read Tips Issue 1 -Managing Your Receivables

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Looking ahead to 2009, predictions are that the turbulent economy will continue. In 2008, business owners found themselves reacting to unanticipated economic changes that rapidly came into play. For 2009, it is imperative that businesses create a plan to navigate the rough waters ahead.

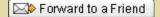
The next three Tips releases will talk about a process that will guide you in creating a meaningful plan for 2009. First, you need to know where you stand financially - the topic of this issue. In the next release of Tips, we will talk about creating a plan for 2009. And in the third installment, we will create benchmarks to measure how the business is performing against that plan.

Before you dive in and start forecasting your expectations for 2009, let's be sure you have a sound understanding of where your business stands today.

Making Financial Data Work for You

There is a wealth of information available within your accounting records. Most businesses only touch the surface of this capability by simply utilizing the preprogrammed financial reports within the accounting system. A few simple keystrokes at the point of data entry can provide indepth, analytical information to help you better understand your business - using your existing software and staff. Following are the most common opportunity areas that we





encounter in our work for improving financial reporting, and therefore the information that the business owner has to run the business.

Know your sales in depth - This is where it all starts. A deep understanding of your historical sales is necessary to build a solid projection going forward. Your accounting system likely already tracks your sales by customer, but tracking sales by business segment (product line, service offering, or project) is critical to understanding your sales.

Measure profit by business segment -

Tracking sales by business segment is a great start, but assigning the costs to produce that product or deliver that service results in a profitability analysis that is absolutely invaluable. You are likely to find wide differences in profitability among each of your business segments. This is a great tool for planning - and for ongoing management. Review your sales incentive program to align your sales incentives with the most profitable segments of your business. And consider eliminating unprofitable or low margin segments. Smaller can be better!

Get Cost of Goods Sold right - Improper accounting for the full cost of goods sold/services delivered is the most frequent shortcoming we find in company financials. Businesses frequently don't include all of the costs that it takes to produce their product or service within cost of goods sold. Including all of the costs, including relevant payroll costs, will allow for a true measurement of gross profit. Gross profit margin (sales minus cost of good sold) is one of the most fundamental indicators of the health of the core operations of any business and needs to be carefully monitored.

Match the timing of your Sales and Cost Data - It is important to match the timing of bringing sales and the related costs to produce those sales into your income statement. Think of a project that a client pre-pays you for. Without matching the timing of the income and costs of such a project, the month of payment by the customer will show an inappropriately high profit with subsequent months showing costs

that appear to produce no revenue!

Group your Sales and Marketing costs into a separate P&L section - Don't confuse these costs with your cost of overhead. Sales and marketing costs include promotional materials, advertising, trade show attendance, commissions paid to sales people, marketing staff wages, website costs and the like. Typically, we find these costs scattered throughout the income statement. Group these costs into a separate section of the P&L so that at a glance, you can know what you are spending on this discretionary spending category. Also, group and sub-total related categories of this spending. Be sure to include the payroll for employees dedicated to sales and marketing in this category to get a complete picture of your costs in this area.

Organize reporting of your Overhead

Costs - Your accounting software is likely preprogrammed to give you an alphabetical listing of costs in this area. Reporting in this manner is the single most frequent reason that CEOs tell us that their financial reports are not useful. Group related costs and subtotal them so that at a glance you can identify your total cost of each operational category in overhead. Group personnel costs into one sub-total, the costs to run the office in another, the cost of your various business insurance programs in another, costs of IT in another, and the like so that at a glance you can know and compare month to month your total cost for each of these overhead areas.

Percentages Rule! - Use percentage relationships between elements of your P&L to understand current and past data. Absolute values alone don't tell the story - percentages tell the relationships of the elements of your business and how they are changing over time.

We hope that you find this information practical and of value in managing your business in these turbulent times.

Innovative CFO Solutions provides the financial management that growing small and

medium size businesses need at a cost they can afford. Our solutions to client challenges are customized to the needs of each of our clients. And we right size our work to fit the budget of each company that we are privileged to serve.

Whether your business faces the challenges of increasing economic pressures, or it has identified a solid path for growth, your team needs an experienced financial member to help you achieve your goals. We can be that team member - at a cost you can afford.

Call us today at 941.378.9801 to schedule a free consultation. And learn more about us at www.innovativecfos.com.

Please feel free to forward this to associates that might benefit from this information.

Sincerely,

Ray Reher Innovative CFO Solutions, Inc.

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Financial Management for Growing Businesses