financial reporting expectations to run your business well

by Lara Morgan

For much of Pacific's development I was really learning and living by the saying 'what gets measured gets done'. Hence the vital point that when you set measurements and indicators, goals for people to achieve, you must, must, *must* target the stuff you need done by priority and forget just measuring stuff for measurement's sake. Having said that, setting a time for discussing performance against targets is also a critical feature of the processes you need to set as you grow.

Cash availability is not enough, although you should know your cash available at the shortest notice. You should also have a picture of what this is expected to look like over the following twelve months; banks will expect this at the very least. You need it to know when funding requirements change and you should know it intimately enough to spot trends which allow you to think and plan actions in advance.

Here are the reports we used.

• **Cash burn** (weekly/monthly) is the proper measurement allowing you to make sound sales decisions with financial control in place. This attitude will stand you in good stead with any bank and is critical in allowing you to do the most profitable deals – a luxury which some companies who do not grow as fast as Pacific do not have. Profit on the deal, including the time that it pays you back in, is the real cost of the cash applied to a deal and you must make your spending decision on the whole picture of funding a product through the sale and payment. Then, and only then, can you make decisions on what is really the most profitable piece of business you want to take on. When cash was very tight I put a great deal of effort into sales in countries where a letter of credit business growth was possible without a drain on cash, and utilising extended credit facilities from suppliers with whom we had relationships.

But how do you extend supplier relationships without damaging the flow of goods? You bother to call the supplier whose terms you might be stretching, who is also benefiting from your growth, and you talk to them when cash is tight. You then agree a revised short-term payment plan and you stick to it. Too many people ignore the fact that the suppliers' possibilities are affected by your slow payment – and in effect you could be shooting yourself in the foot. Clearly a balance needs to be found when it comes to the buying decisions you make. Try and estimate the impact that a new spend might have on the company. A big spend obviously needs time and research, but ultimately if the system is not working and you are wasting funds, then you need to put in step changes immediately to stop the rot – perhaps applying cost savings, perhaps trialing a new approach – whilst you continue to squeeze the value out of the deal. To a point, though. Never go beyond what a supplier can afford to sell to you for; service will be provided to the level that you are paying and in the end your business may suffer. The big boys sometimes squeeze great deals and make them work as the smaller companies suck up additional expenditure whilst the power of the volume scale works for their buyer; it's annoying, but that's life. I have seen wonderful examples of consortium savings in the hospitality industry – do these exist for your business?

Cash burn should report how much cash you are going through (burning) through on average in a week or month. Divide your bank balance by your cash burn and it will tell you how many weeks or months you have until cash runs out. You must always know this figure.

• **Debtor days** – recording your average collections performance. If your payment terms are thirty days and your debtors days are currently at ninety, it highlights a problem in your collections department. Poorly collected cash leaves money in limbo that you could be using. Whilst our sales growth remained exceptional, we milked every penny as fast as we could through the system and had world-class in-house collections ladies who handled their role with immense pride.

• **Creditor days** – I hate to admit this point, but the fact is that I measured the time it took to pay our bills, and we set what we thought was a reasonable standard by which our suppliers could plan and know they would be paid.

Our industry payment terms were thirty days, month end (are you clear about what yours are?). This means that most major companies in the hospitality industry order, if possible, on the first day of the month and pay on the last day of the month following that month – nearly sixty days after placing the order. This cash outflow delay sometimes allowed us to do deals and grow extraordinarily. I am afraid I would advocate slow payment to major suppliers time and time again if it allows you to grow more quickly.

• **Average sales per salesperson** (and, in our case, sales per region per month). You need to establish which members of your sales team are 'rainmakers' and which are not, and you need to have a team of rainmakers to maximise product potential. We could not spot a poorly performing sales person in a few days; indeed, it took a few months to really establish a sales person's performance. Nevertheless, the tracking itself and open shared targets achievement are time and again proven to bring better results from a team as a whole.

• **Sales sum** (sales summary). Allow me to introduce to you our daily reporting system. This showed the market sales by sales person and a running total, monthly and annually, towards the overall sales goal. The percentages it gave appeared to show competitive gaps between individuals and overall performance towards monthly targets. Everyone at Pacific (and I mean everyone) had access to this every day on their email. I know for a fact that at the end of the month shipping, sales admin and inventory management departments – when working at their optimum – would work closely to ensure that every penny was delivered, shipped and invoiced to achieve and overachieve the goals for which we all shared responsibility.

Our systems reported to us annually at costing (before the sales stage) both the net and gross margin of the goods we intended to sell, by item, by range, by any scale set. Systems like this will save a fortune in unprofitable decisions to sell goods. Nonetheless, something we only cracked towards the end of my ownership was the ability to report sold goods' actual margin against expected.

• **Average gross margin**. At the end of every month our accounts department produced a wonderful report showing the reported profit per invoice and highlighting any customers showing less than appropriate profit for an order. These invoices then become the responsibility for the sales people concerned to put in a price increase, explain themselves if this was an exceptional blip, or sell something else in that would bring up the overall margin above a company-set measure.

Additionally, I learnt to use ratio reports during the time I spent at Cranfield School of Management. These allowed a completely new view on the numbers and were incredibly powerful when considering our performance overall – and when measured against those of the competition.

The early days of a business, when everyone is multitasking, is a great way of seeing how you as a business are performing year on year. Efficiencies can be lost as a company grows, but this measure will ensure you know where you stand as you perhaps invest in new structures and efficiencies to take you to the next stage of growth. I do see this as a stepping-stone system, and sometimes you quite literally are speculating/investing to accumulate in the next phase.

• **Revenue per head / overhead per head**. Divide your revenue and your overhead by the number of people in the organisation. Knowing whether you are top heavy (or not bringing in the revenue to support the headcount) will be priceless in making employment and any other important cost decisions. I would genuinely sometimes procrastinate over employment decisions even when I knew the team were hard-pushed if the numbers did not support the role in the long term. Do not waste time in a recruitment process you cannot later afford.