

A DAW Consulting Book

How to AVOID Financial Disaster !!

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Author

Of

Help! I Own a Business

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ESBN 48292-050721-144134-77

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Contents

- Introduction
Background, benefits
- 1 Control your Business
Take control, monitor, goals, timeliness
- 2 Be Honest and Realistic in your Decision Making
Discipline
- 3 Reconcile your Cash
Know what is going on
- 4 Pay on Time – Receive on Time
Eliminate waste, obligations
- 5 Communicate
Organise, meetings, action
- 6 Re-engineer your Processes
Unnecessary work, duplication
- 7 Involve your Employees
Delegate, train, encourage
- 8 Maintain High Customer Service Levels
Meet customer expectations
- 9 Provide an Adequate Capital Structure
Funding in various forms
- 10 If All Else Fails seek Expert Help
Look outside the business for assistance

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Introduction

Business owners and directors, particularly of small and medium sized enterprises may not have the resource to invest in full time professional staff.

As a consequence some early indicators of potential future problems may be overlooked.

This ebook is intended for those busy people in enterprises:

- who want to take **control** of the financial performance of their business
- who want to **recognise the signals** that things may not be 100% correct
- who want to ask of others the **right questions** without fear of embarrassment
- who know they **have a problem** but do not know how to start addressing the causes

The **BENEFITS** of understanding more about what is happening within your business cannot be understated.

This ebook will allow you to kick start your quest for more knowledge about your business.

"If a man empties his purse into his head, no man can take it away from him. An investment in knowledge always pays the best interest."

Benjamin Franklin

1 Control your business!

Be sensible, practical, but above all else know what is happening in your business. So often managers think they know, but through a lack of understanding, the use of incomplete or inaccurate records, wrong or ill-timed decisions are taken. Some managers opt out completely and take no decision at all.

Control your business by ensuring that:

- good management and accounting systems are in use
- if you do not understand the "numbers" seek help – be trained!
- all information on which you base your decisions is accurate, if in doubt have the data audited
- short and long term goals have been set
- financial information is prepared in a timely manner and at regular intervals
- all management information is reviewed in a timely manner and when necessary corrective actions are taken

"It's hard to lead a cavalry charge if you think you look funny on a horse."

Adlai Stevenson

2 Be Honest and Realistic in your Decision Making

If the data upon which you are taking business decisions is suspect, the business decision making process **is** suspect.

Further remember what you are in business for – to achieve your goals, your vision. Your goals will become more difficult to achieve if the quality of the data used to base decisions upon is suspect.

Discipline yourself to:

- write off bad debts immediately
- write down the value of obsolete or slow moving stock in the Balance Sheet
- record incomes in the correct accounting period
- record expenses in the correct accounting period
- be honest in all financial matters
- accrue for known future non-recurring items of cost and income that relate to the current period
- remain focused and take decisions that only support meeting your goals

"Life is like fresh fallen snow, be careful where you walk, for every step will show."

Anon

3 Reconcile YOUR Cash

Know your cash balance at all times.

Cash is the lifeblood of the business. Do not let it drip away in waste.

Forecast your cash flows on a regular basis. Be in control and manage your cash position.

Conserve all cash and recognize the dangers of:

- spending cash on items that are not necessary in meeting the goals of the business
- buying new when second hand would suffice
- structuring incentive schemes to sales instead of cash and profit
- creditor chase letters and writs may indicate cash outflows not recognized in your forecasts
- a "cheque in post" and post dated cheques mentality may further lead to errors in forecasts

"It is no use in saying, 'We are doing our best'; You have got to succeed in doing what is necessary."
Sir Winston Churchill

4 Pay on Time – Receive on Time

Make all payments on time. If this is not possible then negotiate revised terms with suppliers. Always avoid late payment of taxes, including VAT, NI and PAYE.

Negotiate acceptable credit terms with your customers, and enforce them as appropriate.

Take control of the situation and not let yourself become a bystander!

Avoid:

- unnecessary cost and waste through not acting promptly. Consider the cost of staff time answering or making telephone calls, letters and emails relating to unpaid bills
- offering credit terms to customers who fail to meet their contractual agreements
- failing to take up credit references for all new customers
- offering substantially improved credit terms to customers who have purchased small but now suddenly want to purchase big
- expensive debt recovery agencies
- failing to communicate with your suppliers should you be unable to meet your payment commitments.

"All companies have the chance to improve, but some do not believe in taking chances."

Anon

5 Communicate!

Do you communicate with your staff, customers, suppliers and other groups connected with your business? Do they know you communicate?

How do you communicate? Meetings, letters, email, telephone or other.

Are your communications understood and interpreted in the manner that you intend?

All too often much communication is not effective.

Consider all management and financial information that is prepared by a business. All too often there may be a cursory read, then filed and not acted upon.

This form of communication is expensive to prepare and no benefit is derived.

Organize yourself to:

- attend **regular** internal and/or external review meetings with staff, customers and other stakeholders alike
- chair meetings in a constructive manner and follow an agenda.
- avoid a "talk shop or blame" culture
- listen to others
- encourage feedback
- engage an "open door" policy
- ensure **action points** are recorded, designated to individuals and followed up

"If your actions inspire others to dream more, learn more, do more and become more, you are a leader."

John Quincy Adams

6 Re-engineer your Processes

Frequently business systems remain unchanged for long periods, become outdated and fail to satisfy the demands of a changing business environment.

This shortcoming is often found in administrative as well as manufacturing processes. Over time processes cease to be appropriate, are tweaked to accommodate changing environments and result in inherent waste.

Review and benchmark your processes to avoid:

- unnecessary work that does not add value
- work duplication that constitutes waste
- stand alone systems - integrate wherever possible

"It is not necessary to change. Survival is not mandatory"
W Edwards Deming

7 Involve YOUR Employees

Often it is quoted that employees are the greatest asset of a business.

But also it is found that in some organizations employees are not always respected, involved with or empowered to participate in the decision making processes of the business.

Train your staff and delegate responsibilities, particularly in a time of crisis:

- in a controlled manner
- involve the appropriate staff in decision making

"Business is like a car - It won't run itself except downhill."
Anon

8 Maintain High Customer Service Levels

Winning customers is hard, retaining customers more so. During a financial crisis, if customer service may be adversely impacted agree with the customer an acceptable level of service that will meet the needs and expectations of the customer.

Customers are more discerning and expect all service to be right first time, do not surprise them by falling service levels after failing to communicate your changed circumstances to them. Be proactive and manage the situation.

Take remedial action when adverse trends are recorded in the following areas:

- delivery times
- customer complaints
- customer returns
- warranty claims

"There is less to fear from outside competition than from inside inefficiency, discourtesy and bad service."
Anon

9 Provide an Adequate Capital Structure

An expanding business may require additional funding to sustain growth. Ensure that there is the potential to raise long term funds for the business, to enable financial stability and long term planning to materialize.

Examine the following sources of funds:

- increase share capital
- leasing
- hire purchase
- business angels

"Don't be afraid to take a big step if one is indicated. You cannot cross a chasm in two small jumps."

David Lloyd George

10 If all Else Fails Seek Expert Help

If you are unable to quickly resolve your problems – seek HELP. But seek help BEFORE the issue becomes a catastrophe. Time is money, and catastrophes are costly!

Consultants, banks and solicitors are examples of organizations that can help you.

The sooner remedial action is taken, the sooner normality is resumed and it will almost certainly be more cost effective.

"The world we have created is a product of our thinking; it cannot be changed without changing our thinking."
Albert Einstein
