VERBECK ASSOCIATES, LLC

10 COMMON MISTAKES

What size company needs a CFO? Good question. It's one I hear all the time. The short answer is that ALL companies regardless of size need the expertise of a skilled Chief Financial Officer. A better question is: Does your company need a full time, part time, or fractional CEO? Many small and midsize companies are avoiding the reality of their financial situation, and make 10 common mistakes before even considering a CFO.

MISTAKE 1

Owners aren't focused on profits, and this means cash profits, not just accrual-based profits.

It is essential for business owners to focus on leadership, strategy, sales, performance, and profitability. They must understand the big picture of the business.

MISTAKE 2

Sales data is not scrutinized.

Typically, most business owners have a sales background. Although their area of expertise is sales, they neglect crunching the numbers.

Let me offer a handful of tips to analyze your sales data:

- Know your history. Review sales and gross margin trends for the last 24 months by customer and segment.
- Track your daily sales volume and gross margin.
- Understand your customers. What are they buying? How often? What's their average order size? Don't work with assumptions; work with actual data.
- Use the 80/20 ranking. Focus on what makes you money.

MISTAKE 3

Owners often don't manage and forecast cash well.

Forecasting cash flow and managing it are difficult. Small to medium businesses are notorious for being extremely tight with cash. Many a sleepless night is spent by a CEO over making payroll and paying the bills.

How you can manage cash better:

- Develop a cash flow process with a weekly cash worksheet. Work on ideas to improve the cash flow drivers.
- Depending on the size of your business, improvements in accounts receivable and inventory turnover can be significant. Improvement in day's sale outstanding (DSO) can enhance your cash flow too. If you're a $20MM business with $2.2MM in accounts receivable, a five-day improvement means a $274,000 incremental increase in cash flow.

DSO Worksheet Example

		YOUR COMPANY
Sales	$500,000	$________
Sales Period	30 days	________
Avg. Sales per Day	$ 6,667	$________
Accounts Receivable	$600,000	$________
DSO	35.9 days	________

- Use the 13-week cash flow approach which tracks and estimates all cash receipts by week and cash disbursements by category. You will have a drastically improved system to predict short-term cash.
- Update actual and re-forecast weekly.

MISTAKE 4

No one is analyzing customer sales and margin.

This is a sensitive area. You know your customers don't want to pay more. Charging the right price to stay competitive while increasing your margin is paramount to your company's success. The good news is that there are many ways to increase margins. The CEO who is also acting as the CFO can analyze customer sales and customer gross margin in the matrix shown below.

High Volume/ Low Margin	High Volume/ High Margin
Low Volume/ High Margin	Low Volume/ Low Margin

Utilizing the above model, I worked with a small $3MM distributor to thoroughly analyze their sales and margins. I found that 80% of their customers fell into the low volume and low margin quadrant. We employed a few simple changes i.e. minimum order charge, product line comparisons, customer setup margin. Training for sales reps was integral to making these modifications. The implementation provided an increased gross margin of 4.2% over a three-month period.

MISTAKE 5

There isn't a solid sales plan by product and customer segments.

Sales plans need to be realistic. They're neither all doom and gloom or pie-in-the-sky. Breaking your product into significant segments is necessary. Identify all direct and indirect costs. You'll need to work with your sales reps and talk with your customers.

MISTAKE 6

An established operating plan with overall monthly goals and targets is non-existent.

The remedy for this mistake is to use your sales plan and create a plan for all expense line items. By using historical balance sheet turnover ratios, you can develop balance sheet projections. Then, review strategies to improve each ratio. It's amazing how much cash can be generated with simple strategies.

MISTAKE 7

Company books and records are not up-to-date or accurate.

This is a serious problem. It's crucial that your financial statements are current and accurate. Most companies I see are much too lax in their month-end close processes. Month-end closings should occur within five days. Checklists and procedures need to be created and followed consistently maintain accuracy and timeliness.

MISTAKE 8

The backroom isn't operating efficiently.

Every process must be examined. Compile an operations manual to handle transactions identically every time, which ensures the customer has a consistently positive experience—every time. Think about national franchises like McDonald's. Repetitive tasks need checklists, and a value stream map will aid you with complex processes. A whiteboard with yellow Post-It notes is one of my favorite ways to work on more involved procedures.

MISTAKE 9

There is no timely review of the numbers to compare to expectation.

Know thy numbers. Business owners must understand cash flow, gross margin, working

capital, the entire balance sheet, and the P & L. Without regular and timely reviews you cannot plan wisely for the future, develop corrections, or compare results with last year, the previous month, or quarter.

MISTAKE 10

The basic profit model is not leveraged.

The basic profit model is simple, but it's a powerful tool. The formula is: *Leads x Conversion Rate = Customers x Number of Transactions x Average Profit per Sales = Revenue x Margin = PROFIT*

Let's break it down: Leads multiplied by how many actually buy from you equals your customers. Each customer purchases a certain number of times per year at an average profit per sale. Customer times the number of transactions times what you're making on each unit equals total revenue/sales. Sales multiplied by margin equals your profit.

A slight increase in any of these components can have a dramatic effect on your bottom line.

WHAT'S NEXT?

Many companies who contact me are doing okay, but are committed to improving the financial health of the business for the long haul. Others are in real financial trouble; some past the point of no return. Who doesn't want to be more profitable and have a solid financial infrastructure? What CEO wouldn't like to relieve some of the daily stress and pressure?

That's where Verbeck Associates, LLC can help. You can receive high-level executive expertise in a cost-effective way. A fractional or part-time Chief Financial Officer can support your company's financial management needs, and lead you toward greater success. We are a small, effective team of finance and business professionals whose only goal is to help your company operate more profitably and become more valuable. Please contact me at *jonv@verbeckassociates.com* for more information or visit *VerbeckAssociates.com.*