FIGURE it out

Money talks. But does yours always say goodbye?
Karl Hartey outlines the route towards financial discipline

AFTER THREE OR FOUR years, 90 out of 100 new businesses have failed. Why? Because they don't manage their finances properly. After 10 years, only one of those 100 new business will remain. Why? Lack of financial control.

There are seven steps for maintaining financial control:

1 Create budgets (on a personal and professional basis)
2 Create monthly management accounts
3 Look at your financial results
4 Make course corrections
5 Get your prices right
6 Reduce debt
7 Create reserves

The benefits of incorporating these new habits are: increased sense of control; increased self-esteem and self-confidence; significant drop in stress levels.

Step 1 CREATE BUDGETS

Do you have business and personal budgets established a year in advance? It is imperative to get into the habit of doing this – either yourself or by delegation to a good accountant, book-keeper or team member. Create a 12-month spreadsheet or use any other method you wish. Enter every item of income and expenditure estimated for the year ahead. Every month, replace the budgeted amounts with the actual amounts. As new, unexpected purchases come along – products, resources, people – enter them into your budget.

Step 2 – PREPARE MONTHLY MANAGEMENT ACCOUNTS

Your management accounts measure profitability. By preparing these on a monthly basis you can quickly check whether you've made a profit or a loss. Reference this against your budget.

Step 3 – LOOK AT YOUR FINANCIAL RESULTS

It is imperative to schedule time each month to evaluate your financial results, review management accounts, compare them with your budgets and then make corrections. Make it an agenda item at the monthly board meeting. If you have not already scheduled all your board meetings a year in advance, do so NOW.

Step 4 – MAKE COURSE CORRECTIONS

When you're sailing you don't take a positional reading once a year. You take a reading every 30-60 minutes. You're constantly tacking from one side to another in order to compensate for external and internal factors. It's the same in business. The external factors include the costs of your materials, number and type of clients, market conditions. The internal factors include resources, production costs, personnel, you, your products/services and prices. They are CONSTANTLY CHANGING. That's why it is essential to take time out at least monthly to monitor 'course deviations' and take appropriate action.

Step 5 – GET YOUR PRICES RIGHT

A simple method for setting your prices:

First, decide at the start of the year what your total sales need to be to cover your projected business expenses and lifestyle – then calculate your pricing structure:

Gross Turnover Target £
Divide by number of 'focus' days you want to work. Daily Rate = £

Gross Turnover Target £
Divide by number clients
Price per client = £

Gross Turnover Target £
Divide by unit sales
Price per unit = £

Step 6 – REDUCE DEBT

There are two types of debt. 1) Normal debt (investment or business debt). This is secured against assets, puts money to work and is a medium to long term consideration; and 2) Stupid debt (debt financing the purchase of consumables). This is not secured against assets and includes credit card, loans, overdraft, asset finance. This is short term debt.

To gain complete financial control, you need to eliminate stupid debt, both personal and professional. Make a list of stupid debts and decide what steps you need to take to eliminate them.

Step 7 – BUILD RESERVES

One of the characteristics of successful people is that they have reserves. One of the greatest benefits of having reserves is the ability to say 'No'. It gives you free-dom and it gives you choice. You no longer make decisions based on need. In terms of finances, why have just enough? Develop an abundance mentality.

What to do with bad payers

- Include payment terms in your business literature.
- Repeat your payment terms in any treatment plans.
- Remind clients to bring payment means with them to a fee-paying appointment.
- Have automated payment facilities on-site (credit cards).

If they fail to make payment on the spot, send the invoice with a self-addressed envelope. Include a paragraph to say that your normal terms are 30 days and that excess of 30 days there will be a 5% administration fee payable.

What to do with broken appointments

Spell out your terms and conditions clearly in your business literature:

- More than 24 hours' notice – no charge
- Within 24 hours' you are granted one free missed appointment per year
- Every time after that you pay the cost of each missed appointment

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