PREVENTING CRISIS
Part IV

By Mark H. Fowler, CMC, CPA (Inactive)

KEY PROJECTS THAT CAN START A PROCESS OF CHANGE

We want to help our clients better navigate growth, avoid what looks like a disaster in the making, or mitigate their risks so that they don't find themselves too close to the edge of the cliff. Where do we start, and how do we become a bigger part of the equation of resolution and solution? Start small. Simple is always better. Half-day or one-day projects are the place to begin to earn the attention that you may not have garnered before because you may have focused your time on core services and not ventured into the "other" support services before.

Here are ten services that add value, increase client/advisor rapport, and can create positive change in the client's business—and remember: even small change can be good change:

Where Does Business Come From? This is a simple but important analysis to help clients understand what circumstances, events, and individuals have the most impact on whether a client or customer is likely to become and stay a customer. For instance, several years ago, we did a study of our own business and found that it was the activity of working with other professionals on specific and difficult projects that generated the most new business. Rolling up our sleeves together was the tipping point. Our marketing endeavors, speeches, articles, workshops, and newsletter were important, but it was the relationships that generated the most new work.

Tracking the Top Five Product Lines. Looking back over a four-, five- or six-year window (we personally like a ten-year window) can give a company a great deal of information on how these supposedly most important products are actually affecting the revenue stream. An assessment might reveal that new product lines are rising to their potential; that a particular product line (or lines) may be diminishing rapidly, that certain older lines are beginning a resurgent cycle (or need resuscitation), et cetera. Many companies don't step back and look at a broader perspective to assess which products have been the most important in certain years, or over time.

Tracking the Top Five Customers. Similar to the product review above, looking back at customers over a period of years can hone a company's understanding of how customers are reacting to products, how well they themselves are doing (for instance, maybe they were the top dog three years ago, but are they the top dog now?), how a given customer's loyalty may have changed, and so on. If we can help a client uncover areas of possible challenge in the top five customers, it may be that there are challenges throughout the rest of the revenue stream. Again, starting small can help reinforce how we can be of real value as advisors.

Inventory turns. "Inventory turnover" is defined as: "A ratio showing how many times a company's inventory is sold and replaced over a period." (Investopedia, http://www.investopedia.com/terms/i/inventoryturnover.asp). Many small- to medium-sized businesses do not have time to dig into analyzing the effectiveness of their products, and in particular the management of these products. Buying patterns, purchasing effectiveness, budgeting, and vendor relationships are topics that many companies rarely investigate at a depth where real change can occur. A small start here that could enhance a client's wellbeing quickly might be to begin to look at the policies and procedures relating to purchasing.

Cash management. Daily, weekly, and monthly cash management programs are a compelling way to help clients begin to understand how and why cash is powerful. But more powerful is the time that this process opens up for owner/managers to make real impact on and in their business while managing cash in a more comprehensive manner. We are not addressing the financial variety of cash management; we are talking about a comprehensive operational approach that merges day-to-day operating dynamics with financial restrictions and available funding to create a process that anticipates where cash is flowing in and that is monitored almost daily, putting the company in a truly real-time and proactive position. (For additional perspectives, please see "Time is King," by Mark H. Fowler, CA CPA Magazine, June 2009 (http://www.calcpa.org/content/25474.aspx).

Key performance indicators. "A Key Performance indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives." (Klipfolio, http://www.klipfolio.com/resources/articles/what-is-a-key-performance-indicator.) Whether it is a project such as the construction of a building or daily tracking of items such as average order size or gross profit per order, key indicators help companies track, evaluate, and course-correct their plans. Think of them as a navigational tool that helps the business navigate the waters and determine the direction of its ship. We often recommend that key indicators, especially daily ones, be limited to three to five. Too many can get confusing, and it is important to develop a set of indicators, or a model, providing metrics that truly add pertinent meaning to the process. Here is where the advisors can bring value. We accounting, tax, investment and consulting types excel at analytics. Here again, start small and help clients to begin to understand that tracking results is as important as developing new products and achieving new sales.

Cost analysis. We would all be surprised to know how little the average business understands about costs relating to its products and services. It's not that businesses are hiding from this information. It's just that other daily challenges seem to take precedence. Helping a client put together a strong and reliable bill of materials for some of its major products could help advance the process toward a more global approach to cost analysis. Helping the client to create some cost centers around similar products to begin to verify actual gross profit, even though a cost accounting capability might not be available, can again help the client see the benefits of analytics in enhancing cost-effectiveness, which can dramatically improve any business.

Customer payment histories. Receiving prompt, full payment for products and services is critical to how well a company survives or thrives. Knowing which customers are true moneymakers isn't always a straightforward process. For example, one customer might buy consistently or in volume, but pay slowly and often late. Another might make good-sized purchases but often return a certain percentage for credit, ultimately paying less than other customers. This data might only show up when we analyze customers' payment histories apart from their purchasing patterns. Changes in payment patterns also show up in a payment history analysis and can be an indication of trouble in the customer company or in its loyalty to our client. Analysis of inconsistent payment habits of customers in relation to the sales personnel serving those customers may indicate that conversations are in order with both the customer and the salesperson. Cash receipts are the life force of a business. If cash is slow, then there may need to be some consideration of modifying the company's credit facility. There is a great deal that advisors can do to help clients to begin to see that most areas of the business are multi-dimensional and, most importantly, are connected to the whole organization. Helping each department to appreciate where it fits into the business equation and to see how all of the departments are connected can increase teamwork, collaboration, and success. Better understanding of customer payment policies can be one of the best avenues for bringing clarity to everyone about how the business succeeds.

THERE IS A GREAT DEAL THAT ADVISORS CAN DO TO HELP CLIENTS TO BEGIN TO SEE THAT MOST AREAS OF THE BUSINESS ARE MULTI-DIMENSIONAL AND, MOST IMPORTANTLY, ARE CONNECTED TO THE WHOLE ORGANIZATION.

Employee turnover. Turnover is an important consideration, whether the business consists of 10, 10,000, or 100,000 team members. Turnover can occur for many different reasons, from being a naturally occurring event to happening as a result of improper hiring practices, poor supervisory skills, marginally developed job descriptions, unclear strategic imperatives relating to growth, inadequate Human Resources capabilities, and more. This type of analysis lends itself well to a phased approach of half-day or day-long sessions in which the client can begin to grasp the benefits of understanding the unique dynamics surrounding team members. Putting the right people in the right positions, all functioning effectively, is the goal—and whatever can be done to make that more of a reality is exceedingly important.

Loan agreements. We've often come into a crisis situation and found any number of surprises surrounding the banking and other loan arrangements. These loans could include equipment, working capital, vehicles, bonds, loans from officers/owners, loans from non-operating shareholders, and more. They may contain restrictions/covenants on any number of operational and capital-based benchmarks—or, in the case of the more personal loans, there may be improperly documented agreements—all of which can spell disaster if the company were to find itself in bankruptcy. In addition, there may be opportunities to refinance any number of these loans at more advantageous rates, fees, and considerations. Most small- to medium-sized businesses have minimal understanding of the dynamics and consequences of borrowing money. Approaching clients about discussing this subject from a preventive standpoint can reinforce an intention of educating them and can build a stronger relationship. Loan analysis can lead to financial benefits or to the discovery of challenges on the horizon that are better handled before they come up without warning down the road.

Summary

This article series was designed to offer a view of the landscape of businesses as they grow and develop and to help us as advisors be of more service to clients. Three key points to remember are: 1) businesses evolve and change, and without a compassionate and managed approach, the ship can run aground, lose its way, or sink beyond repair; 2) as advisors, our interactions and conversations with and on behalf of our clients are essential in helping our clients' businesses thrive; 3) we can be most effective in our role as advisors when we work with and facilitate the involvement of other outside professionals as needed. In so doing, we will be providing the most effective and productive service possible—a holistic approach that no one else can provide.

Read Part I in the series
Read Part II in the series
Read Part III in the series

Mark H. Fowler, CMC, CPA (Inactive), is the president of Stowe Management Corporation, a corporate reengineering firm based in Santa Monica, California. He has worked with bankers, accountants, and their clients for more than thirty years, specializing in turnarounds, succession planning, mergers, acquisitions, and corporate growth. He is also the co-author of the book Revolutionary Conversations™: The Tools You Need for the Success You Want, which recently won the Gold and Bronze awards at the 2014 Global E-Book Awards.